SASKENERGY INCORPORATED
AND
SUBSIDIARIES

FINANCIAL STATEMENTS

December 31, 2005

106-05299/

SASKENERGY INCORPORATED AND SUBSIDIARIES

FINANCIAL STATEMENTS

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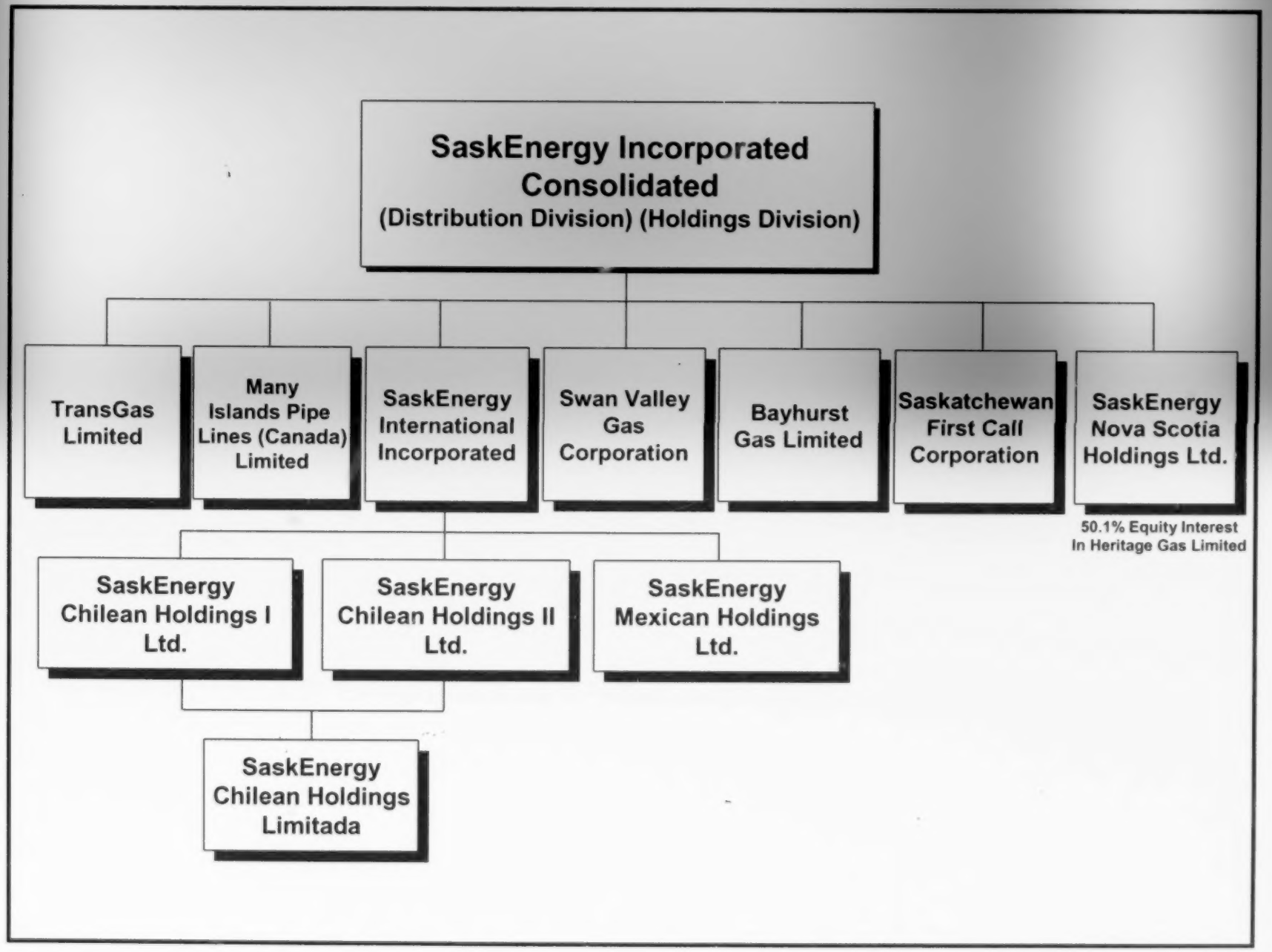
SaskEnergy Incorporated
Consolidated
(Distribution Division) (Holdings Division)
TransGas Limited
Many Islands Pipe Lines (Canada) Limited
SaskEnergy International Incorporated
Swan Valley Gas Corporation
Bayhurst Gas Limited
Saskatchewan First Call Corporation
SaskEnergy Nova Scotia Holdings Ltd.
50.1% Equity Interest In Heritage Gas Limited
SaskEnergy Chilean Holdings I Ltd.
SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Mexican Holdings Ltd.
SaskEnergy Chilean Holdings Limitada

SASKENERGY INCORPORATED

CONSOLIDATED
FINANCIAL STATEMENTS

December 31, 2005

Deloitte

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Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2005 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

SASKENERGY INCORPORATED
Consolidated Statement of Financial Position
As at December 31
(thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash	$ 1,572	$ 3,637
Accounts receivable (Note 4)	215,614	173,726
Natural gas in storage held for resale	139,255	95,966
Inventories of supplies	7,346	6,843
	363,787	280,172
Property, plant and equipment (Note 5)	946,947	949,461
Investments and other assets (Note 6)	32,225	31,755
Natural gas in storage held for resale and operations	28,030	25,053
	$ 1,370,989	$ 1,286,441
Liabilities and Province's Equity		
Current liabilities		
Short-term debt (Note 7)	$ 80,500	$ 78,900
Accounts payable (Note 8)	237,591	159,422
Dividend payable	5,200	26,500
Current portion of long-term debt (Note 7)	71,637	106,235
	394,928	371,057
Long-term debt (Note 7)	582,279	569,348
	977,207	940,405
Province of Saskatchewan's equity		
Equity advances (Note 9)	71,531	71,531
Retained earnings	323,878	276,431
Foreign currency translation adjustment (Note 6)	(1,627)	(1,926)
	393,782	346,036
	$ 1,370,989	$ 1,286,441

Commitments and contingencies (Note 10)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED

Consolidated Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2005	2004
Revenue		
Delivery	$ 156,191	$ 162,246
Transportation and storage	87,890	88,436
Net sales from gas marketing (Note 11)	42,110	36,535
Revenue collected for municipalities (Note 12)	27,673	24,270
Other	6,901	5,932
	320,765	317,419
Expenses		
Operating and maintenance	122,582	117,743
Interest (Note 7)	46,974	49,462
Amortization (Note 5)	51,267	49,608
Payment to municipalities (Note 12)	27,673	24,270
Saskatchewan taxes (Note 13)	6,929	6,256
	255,425	247,339
Net earnings from operations before the following:	65,340	70,080
Commodity revenue	376,083	387,042
Cost of gas sold	(418,296)	(349,280)
Saskatchewan Energy Share (Note 3)	53,620	-
Gain on commodity sales	11,407	37,762
Net earnings	76,747	107,842
Retained earnings, beginning of year	276,431	238,589
Dividends	(29,300)	(70,000)
Retained earnings, end of year	$ 323,878	$ 276,431

(See accompanying notes)

SASKENERGY INCORPORATED
Consolidated Statement of Cash Flows
Years ended December 31
(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings	$ 76,747	$ 107,842
Add (deduct) items not requiring an outlay of cash		
Amortization	51,267	49,608
Other non-cash items	(1,467)	(1,141)
	126,547	156,309
Net change in non-cash working capital related to operations (Note 14)	(7,511)	(25,465)
Cash provided by operating activities	119,036	130,844
Investing Activities		
Additions to property, plant, and equipment	(58,596)	(67,825)
Additions to investments and other assets	(1,649)	(937)
Customer capital contributions received	9,843	10,325
(Increase) decrease in natural gas in storage (non-current)	(2,977)	713
Cash used in investing activities	(53,379)	(57,724)
Financing Activities		
Increase (decrease) in short-term debt	1,600	(31,100)
Sinking fund redemptions	11,058	-
Sinking fund instalments	(5,540)	(4,540)
(Increase) decrease in deferred charges	(851)	1,969
Proceeds from long-term debt	77,806	50,000
Repayments of long-term debt	(101,195)	(30,457)
Dividends paid	(50,600)	(54,060)
Cash used in financing activities	(67,722)	(68,188)
(Decrease) increase in cash during the year	(2,065)	4,932
Cash position, beginning of year	3,637	(1,295)
Cash position, end of year	$ 1,572	$ 3,637

Cash position consists of cash less bank indebtedness

(See accompanying notes)

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2005

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy and its wholly owned subsidiaries own and operate natural gas related businesses located both within and outside Saskatchewan. Operations subject to regulation, as to the rates charged to customers, are described in note 17.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The impact of rate regulation on the application of Canadian generally accepted accounting principles is described in note 17. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., SaskEnergy Nova Scotia Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and the Corporation's 50.1 per cent proportionate share of the accounts of Heritage Gas Limited. Separate audited financial statements are prepared for each of these entities.

b. Natural gas in storage

i. Natural gas in storage held for resale

Natural gas in storage held for resale (both current and non-current) is stated at lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis. Natural gas in storage held for resale classified as a current asset is the estimated amount of natural gas in storage to be sold in 2006 with the remainder classified as non-current.

2. Summary of Significant Accounting Policies (continued)

ii. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost.

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

d. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 50.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

2. Summary of Significant Accounting Policies (continued)

f. Foreign currency translation adjustment

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in the Province of Saskatchewan's Equity.

g. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed as of December 31, is included in revenue.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

Net sales from natural gas marketing is recognized in the financial statements upon completion of the delivery of natural gas to the customer.

Royalty revenue, included in other revenue, is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

h. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, hedging settlements, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

2. Summary of Significant Accounting Policies (continued)

i. Competitive gas sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices, up to the date of settlement, are recorded as gains or losses in the period of change.

j. Derivative instruments

The Corporation uses various derivative instruments to hedge its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used.

The Corporation can designate a derivative instrument as a hedge when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative instruments. If correlation ceases or the Corporation terminates its designation of the derivative instrument as a hedge, future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

i. Natural gas price risk management

The Corporation may hedge the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, derivative instruments may be used as a hedge to fix the settlement amount. The types of instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, swaptions and futures contracts The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

Derivative instruments that do not qualify as a hedge and derivative instruments not designated as a hedge are recorded at fair value in the statement of financial position in accounts receivable, or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings and retained earnings in the cost of gas.

2. Summary of Significant Accounting Policies (continued)

ii. Foreign currency exchange and interest rate risk management

The Corporation uses derivative instruments to hedge the interest rate on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

k. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retirement Allowance Plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

l. Deferred financing charges

Included in deferred financing charges are issue costs, discounts and premiums resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

m. Saskatchewan Energy Share

The Corporation is receiving an appropriation from the Government of Saskatchewan under the Saskatchewan Energy Share. The amounts eligible to be received from the appropriation are recorded in the month in which the natural gas is sold.

3. Saskatchewan Energy Share

On November 29, 2005, the Government of Saskatchewan approved an appropriation of $123,940 thousand (titled – "SaskEnergy Incorporated Vote 77") to establish the Saskatchewan Energy Share. The Saskatchewan Energy Share is intended to reduce the cost of natural gas sold by SaskEnergy to its rate regulated customers. The appropriation relates to the period November 1, 2005 to March 31, 2006 as it is designed to assist natural gas consumers in dealing with high natural gas prices during the winter of 2005/2006.

The financial impact of the Saskatchewan Energy Share is as follows:

a. During 2002 and 2003 SaskEnergy sold natural gas to customers below its cost. A portion of these under-recovered costs were received from customers between June, 2003 and October 31, 2005. As at October 31, 2005, SaskEnergy had not yet recovered $31,703 thousand of this past under-recovery of costs. In order to alleviate customers from having to pay SaskEnergy for these past costs, $31,703 thousand was paid to SaskEnergy by the General Revenue Fund (GRF), a related party. As a result SaskEnergy has been fully reimbursed for these past costs.

b. Through the Saskatchewan Energy Share, the Government of Saskatchewan appropriated up to $92,040 thousand which is eligible to be used by SaskEnergy to cap the cost of natural gas sold at $7.95 per Gigajoule. The appropriation relates to natural gas sold to customers during the period November 1, 2005 to March 31, 2006. For each month during this period, SaskEnergy will calculate its actual cost per Gigajoule of natural gas and compare this amount to the cap of $7.95 per Gigajoule. Should SaskEnergy's actual cost of gas be above the cap of $7.95 per Gigajoule, the GRF will pay SaskEnergy an amount required to reduce the cost of gas down to the cap of $7.95 per Gigajoule. Accordingly, for the month of November, 2005, SaskEnergy received $13,322 thousand from the GRF. For December, 2005 the amount was $8,595 thousand, which was received in January, 2006.

c. Certain natural gas consumers in Lloydminster, Saskatchewan receive their natural gas service from Direct Energy Regulated Services (a supplier based in Alberta). Under the Saskatchewan Energy Share, $1,000 thousand has been allocated to provide eligible Lloydminster customers with a one time credit of $200. This credit will be provided to these customers in 2006. SaskEnergy will reimburse Direct Energy Regulated Services for the total amount of the credit and then in turn recover this amount from the GRF.

4. Accounts Receivable

	2005	2004
	(thousands)	
Trade accounts	$ 48,913	$ 33,666
Unbilled revenue	146,961	122,991
Other accounts	19,740	17,069
	$ 215,614	$ 173,726

5. Property, Plant and Equipment

	2005			2004		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 627,211	$ 189,961	$ 437,250	$ 607,993	$ 173,419	$ 434,574
Distribution	629,883	190,999	438,884	609,371	173,770	435,601
Gathering, treatment and compression	141,256	61,309	79,947	152,648	60,448	92,200
Vehicles, equipment and other	165,735	96,030	69,705	162,983	90,908	72,075
Franchise acquisition costs	1,668	133	1,535	1,668	67	1,601
Royalty interest	6,509	6,509	-	6,509	6,509	-
Construction in progress	43,744	-	43,744	31,285	-	31,285
	$ 1,616,006	$ 544,941	1,071,065	$ 1,572,457	$ 505,121	1,067,336
Less:						
Unamortized customer capital contributions			124,118			117,875
			$ 946,947			$ 949,461

Property, plant and equipment includes $16,850 thousand (2004 - $9,048 thousand) which represents the Corporation's 50.1 per cent proportionate interest in the assets of Heritage Gas Limited.

Franchise acquisition costs relate to the costs required to acquire the franchise distribution of natural gas in the Province of Nova Scotia.

5. Property, Plant and Equipment (continued).

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2005	2004
	(thousands)	
Balance, beginning of year	$ 117,875	$ 110,944
Contributions received	9,843	10,325
Contributions amortized	(3,600)	(3,394)
Balance, end of year	$ 124,118	$ 117,875

b. Amortization

	2005	2004
	(thousands)	
Amortization of property, plant and equipment	$ 54,867	$ 53,002
Amortization of customer capital contributions	(3,600)	(3,394)
	$ 51,267	$ 49,608

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.44 per cent during 2005 (3.44 per cent during 2004).

6. Investments and Other Assets

Investments and other assets are as follows:

	2005		2004	
	Amount (thousands)	Per cent Ownership	Amount (thousands)	Per cent Ownership
a. Equity investments				
i. Gas Sur S.A.	$ 14,530	30.0	$ 13,511	30.0
ii. Igasamex USA Ltd.	9,880	40.1	9,926	40.1
	24,410		23,437	
b. Other receivables	2,708		1,059	
c. Deferred charges				
Unamortized deferred financing costs	4,170		4,076	
Unamortized past service costs	937		3,183	
	5,107		7,259	
	$ 32,225		$ 31,755	

Equity investments:

i. Gas Sur S.A.

The Corporation's 30 per cent share of Gas Sur S.A.'s 2005 net earnings was $378 thousand (2004 - $381 thousand). The Corporation's share of the foreign currency translation adjustment for 2005 resulted in a $641 thousand increase in the balance of the investment in Gas Sur S.A. (2004 - $84 thousand reduction). The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2004 - $5,100 thousand).

ii. Igasamex USA Ltd.

The Corporation's 40.1 per cent share of Igasamex USA. Ltd.'s 2005 net earnings was $295 thousand (2004 - $131 thousand). The Corporation's share of the foreign currency translation adjustment related to the investment in Igasamex USA Ltd. for 2005 resulted in a $342 thousand reduction in the balance of the investment in Igasamex USA Ltd. (2004 - $759 thousand reduction). The cost of the investment exceeded the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $4,900 thousand (2004 - $5,200 thousand).

7. Long-Term Debt

Years to Maturity	2005 Principal Outstanding (thousands)	2005 Average Fixed Interest Rate (per cent)	2004 Principal Outstanding (thousands)	2004 Average Fixed Interest Rate (per cent)
Province of Saskatchewan				
1 - 5	$ 308,564	7.6	$ 329,758	8.2
6 - 10	150,000	4.9	180,000	5.7
11 - 15	33,971	6.7	-	
16 - 35	185,000	7.1	193,971	7.3
	677,535		703,729	
Less sinking fund equity	(31,240)		(32,962)	
Less due within one year	(71,637)		(106,235)	
Due to Province of Saskatchewan	574,658		564,532	
Other	7,621	8.5	4,816	13.5
	$ 582,279		$ 569,348	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 10.7 per cent for 2005 (6.82 per cent for 2004).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

7. Long-Term Debt (continued)

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2006	2007	2008	2009	2010
Principal	$ 66,597	$ 47,705	$ 75,126	$ 39,136	$ 80,000
Sinking fund instalments	5,040	5,040	4,740	4,490	4,490
	$ 71,637	$ 52,745	$ 79,866	$ 43,626	$ 84,490

d. Short-term debt

During 2005, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 3.2 per cent (2004 - 2.9 per cent).

Short-term debt at December 31, 2005 consists of $80,500 thousand (2004 - $78,900 thousand) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 3.44 per cent (2004 - 2.5 per cent).

e. Interest expense

Interest expense was as follows:

	2005	2004
	(thousands)	
Interest expense on long-term debt	$ 52,755	$ 51,535
Interest expense on short-term debt	426	1,668
Amortization of deferred financing costs	826	1,322
Sinking fund earnings	(3,796)	(2,301)
Interest allocation to cost of gas sold	(2,633)	(2,209)
Interest capitalized	(604)	(553)
	$ 46,974	$ 49,462

Cash interest paid during 2005 on long-term debt was $53,567 thousand (2004 - $51,904 thousand).

8. Accounts Payable

	2005	2004
	(thousands)	
Supplier payables	$ 177,895	$ 103,755
Interest payable	12,631	13,230
Other payables	47,065	42,437
	$ 237,591	$ 159,422

9. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. Financial Instruments, Commitments and Contingencies

Financial Instruments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	$ 685,156	$ 798,202	$ 708,545	$ 814,123
Sinking fund equity	31,240	33,087	32,962	34,692
Natural gas price hedges owed to (by) SaskEnergy				
- swaps	(2,329)	2,362	-	5,682
- options	1,896	(4,090)	11,302	(11,824)

The fair values of the above instruments were based on the following:

i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at year end.

10. Financial Instruments, Commitments and Contingencies (continued)

iii. Natural gas price swaps - The relevant index price in effect as at year end. Swap contracts have been entered into for 2006 and 2007.

iv. Natural gas price options - The relevant index price in effect as at year end. Option contracts have been entered into for the period January, 2006 to October, 2006.

The carrying values of other financial instruments (accounts receivable, accounts payable, dividend payable and short-term debt) approximate fair value.

b. The Corporation has entered into forward purchase agreements to purchase 3.0 Petajoules and sell 3.0 Petajoules of natural gas during 2006.

c. The Corporation has entered into natural gas price swaps with counterparties, to fix the purchase price of 2.6 Petajoules in 2006 and 2007. The natural gas will be held for operations.

d. The Corporation has entered into natural gas price swaps, to fix the selling price of 3.6 Petajoules committed for sale during 2006 and 2007.

e. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

f. Guarantees

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand (United States dollars).

g. Letters of credit

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit issued to Igasamex USA Ltd. Bank One, N.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Bank One, N.A.

10. Financial Instruments, Commitments and Contingencies (continued)

ii. The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract.

Leases

Lease payments are as follows: (thousands)

2006	2007	2008	2009	2010	Thereafter	Total
$1,724	$1,629	$1,625	$1,582	$2,388	$111	$9,059

11. Net Sales From Gas Marketing

Net sales from gas marketing include the following:

	2005	2004
	(thousands)	
Competitive gas sales	$ 546,368	$ 327,018
Cost of gas	504,258	290,483
Margin	$ 42,110	$ 36,535

Gross revenue of $33,420 thousand from natural gas sales (2004 - $27,093 thousand) was generated from natural gas purchased from an affiliate at nil cost. The consideration was equal to the affiliate's carrying value.

12. Revenue Collected For and Paid to Municipalities

a. Natural gas distribution

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the consolidated statement of earnings. In 2005, revenue collected and paid to municipalities was $20,737 thousand (2004 - $20,885 thousand).

12. Revenue Collected For and Paid to Municipalities (continued)

b. Natural gas transmission

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities on the statement of earnings. In 2005, revenue collected and paid to municipalities was $6,936 thousand (2004 - $3,385 thousand).

13. Saskatchewan Taxes

	2005	2004
	(thousands)	
Corporate capital tax	$ 5,350	$ 5,086
Mitigation payments and property taxes	1,579	1,170
	$ 6,929	$ 6,256

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

14. Net Change in Non-Cash Working Capital

	2005	2004
	(thousands)	
Accounts receivable	$ (41,888)	$ (29,202)
Natural gas in storage held for resale	(43,289)	(13,864)
Inventories of supplies	(503)	(385)
Accounts payable	78,169	17,986
	$ (7,511)	$ (25,465)

15. Related Party Transactions

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

15. Related Party Transactions (continued)

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2005	2004
	(thousands)	
Revenue	$ 39,024	$ 38,654
Operating expenses	27,172	27,463
Customer capital contributions	4,386	4,320
Accounts receivable	2,886	1,362
Accounts payable	549	341
Natural gas held for resale	-	401

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

16. Employee Future Benefits

a. Pension plans

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $2,925 thousand (2004 - $2,824 thousand) on behalf of employees for current services.

b. Retiring Allowance Plan

The amounts related to the defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2005	2004
	(thousands)	
Accrued benefit liability	$ 13,957	$ 12,239
Benefits paid during the year	556	494
Net expense	4,520	2,502

16. Employee Future Benefits (continued)

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2005	2004
Discount rate	**4.50 per cent**	4.50 per cent
Inflation rate	**2.50 per cent**	3.00 per cent
Average remaining employee service life	**13.2 years**	8.4 years

Effective January 1, 2005 the retiring allowance for employees who are members of the CEP was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004. Entitlements, under the retiring allowance plan, earned to December 31, 2004 will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

17. Rate Regulation

The impact of rate regulation on the application of Canadian generally accepted accounting principles as it relates to the regulated operations of the following entities is as follows:

a) SaskEnergy

By virtue of legislation, SaskEnergy has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order-in-Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate setting process, revenue recognition policies for commodity and delivery revenue are as described in Note 2g. SaskEnergy's delivery revenue was $159,847 thousand for 2005 (2004 - $167,876 thousand) and commodity revenue was $374,525 thousand for 2005 (2004 - $386,448 thousand).

Cost of gas sold is accounted for in accordance with the policy described in note 2h.

For those commodity sales subject to the rate setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

17. Rate Regulation (continued)

In accordance with the foregoing rate-setting process, commodity revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies disclosed in Note 2g. The balances accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

b) TransGas Limited (TransGas)

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate setting process, revenue recognition policies for transportation revenue are as described in note 2g. TransGas transportation revenue was $105,067 thousand for 2005 (2004 - $109,255 thousand).

c) Many Islands Pipe Lines (Canada) Limited (MIPL)

The business activities of MIPL are regulated by the National Energy Board.

Revenue recognition policies for MIPL transportation revenue are as described in note 2g. MIPL transportation revenue was $3,865 thousand for 2005 (2004 - $3,525 thousand).

d) Swan Valley Gas Corporation (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. SVGC's delivery revenue was $613 thousand for 2005 (2004 - $606 thousand) and commodity revenue was $691 thousand for 2005 (2004 - $533 thousand).

17. Rate Regulation (continued)

c) Heritage Gas Limited (Heritage Gas)

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). The following is a description of the effects of regulation on Heritage Gas as they relate to the Corporation's 50.1 per cent interest:

i. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use a RDA. The RDA changes based on the difference between the actual revenue billed and the revenue required to earn the rates of return approved by the NSUARB. During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. The recovery of any residual balance in the RDA at December 31, 2008 is subject to approval by the NSUARB.

The RDA as at December 31, 2005 was $2,709 thousand (December 31, 2004 - $1,059 thousand). The effect of the RDA accumulation was to increase revenue in 2005 by $1,650 thousand (2004 - $937 thousand).

ii. Allowance for funds used during construction (AFUDC)

Heritage Gas capitalizes an imputed carrying cost on assets under construction. The calculation method and rate of AFUDC have been approved by the NSUARB.

iii. Operating expenses

The NSUARB has approved the capitalization of operating and maintenance expenses. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

iv. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

18. Heritage Gas Limited

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent interest of the Heritage Gas joint venture:

i. Consolidated statement of financial position

	2005	2004
	(thousands)	
Current assets	$ 1,392	$ 831
Property, plant and equipment	16,849	9,048
Regulatory receivable	2,709	1,059
Deferred charges	151	203
Current liabilities	(1,689)	(902)
Net investment	$ 19,412	$ 10,239

ii. Consolidated statement of earnings

	2005	2004
	(thousands)	
Revenue	$ 2,250	$ 1,182
Expenses	(901)	(407)
Net earnings	$ 1,349	$ 775

iii. Consolidated statement of cash flows

	2005	2004
	(thousands)	
Cash used in operating activities	$ (355)	$ (568)
Cash used in investing activities	(7,682)	(4,645)
Decrease in cash	$ (8,037)	$ (5,213)

19. Segmented Information

SaskEnergy operates predominantly in the following two industry segments:

Distribution Distribution Division of SaskEnergy provides natural gas commodity and delivery services to customers in the Province of Saskatchewan.

Transportation TransGas Limited operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end-use customers, marketers and export producers. This company also provides natural gas storage services.

Statement of Earnings

($ millions)	Distribution		Transportation		Other [1]		Intercompany [2]		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenue										
Delivery revenue	159.9	167.9	-	-	2.9	1.8	(6.6)	(7.4)	156.2	162.3
Transportation and storage	-	-	134.3	136.2	3.8	3.5	(50.3)	(51.3)	87.8	88.4
Net sales from gas marketing	6.2	5.8	-	-	34.0	26.9	1.9	3.8	42.1	36.5
Revenue collected for municipalities	20.7	20.9	7.0	3.4	-	-	-	-	27.7	24.3
Other	2.7	2.5	-	-	7.6	7.0	(3.4)	(3.6)	6.9	5.9
	189.5	197.1	141.3	139.6	48.3	39.2	(58.4)	(58.5)	320.7	317.4
Expenses										
Operating and maintenance	112.7	111.5	59.5	56.4	5.2	5.1	(54.9)	(55.3)	122.5	117.7
Interest	16.3	16.7	26.2	26.7	1.5	2.2	3.0	3.9	47.0	49.5
Amortization	24.4	23.8	24.8	23.9	2.1	1.0	-	0.9	51.3	49.6
Payments to municipalities	20.7	20.9	7.0	3.4	-	-	-	-	27.7	24.3
Saskatchewan taxes	3.6	3.2	2.4	2.4	0.9	0.6	-	-	6.9	6.2
	177.7	176.1	119.9	112.8	9.7	8.9	(51.9)	(50.5)	255.4	247.3
Net earnings from operations before the following	11.8	21.0	21.4	26.8	38.6	30.3	(6.5)	(8.0)	65.3	70.1
Commodity revenue	374.5	386.4	-	-	1.6	0.6	-	-	376.1	387.0
Cost of gas sold	(419.6)	(351.5)	-	-	(1.6)	(0.7)	2.9	2.9	(418.3)	(349.3)
Saskatchewan Energy Share	53.6	-	-	-	-	-	-	-	53.6	-
Gain (loss) on commodity sales	8.5	34.9	-	-	-	(0.1)	2.9	2.9	11.4	37.7
Net earnings (loss)	20.3	55.9	21.4	26.8	38.6	30.2	(3.6)	(5.1)	76.7	107.8

19. Segmented Information (continued)

Statement of Financial Position

($ millions)	Distribution		Transportation		Other[1]		Intercompany[2]		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Assets										
Current assets	**344.0**	268.3	**23.9**	13.7	**8.5**	4.2	**(12.6)**	(6.1)	**363.8**	280.1
Property, plant & equipment, & natural gas in storage	**405.6**	407.0	**522.1**	525.6	**47.8**	42.2	**(0.5)**	(0.3)	**975.0**	974.5
Investments & other assets	**3.9**	6.3	**2.2**	3.8	**27.2**	24.7	**(1.1)**	(3.0)	**32.2**	31.8
	753.5	681.6	**548.2**	543.1	**83.5**	71.1	**(14.2)**	(9.4)	**1,371.0**	1,286.4
Liabilities and Equity										
Current liabilities	**313.8**	223.8	**100.1**	148.0	**22.4**	18.8	**(41.4)**	(19.5)	**394.9**	371.1
Long-term debt	**245.1**	238.6	**277.4**	220.6	**21.3**	16.1	**38.5**	94.0	**582.3**	569.3
	558.9	462.4	**377.5**	368.6	**43.7**	34.9	**(2.9)**	74.5	**977.2**	940.4
Equity	**194.6**	219.2	**170.7**	174.5	**39.8**	36.2	**(11.3)**	(83.9)	**393.8**	346.0
	753.5	681.6	**548.2**	543.1	**83.5**	71.1	**(14.2)**	(9.4)	**1,371.0**	1,286.4

[1]The Other category includes Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, Swan Valley Gas Corporation and SaskEnergy Nova Scotia Holdings Ltd.

[2]The Intercompany category includes general corporate assets, liabilities, revenue and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intercompany sales as if the sales were made to third parties at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately as it provides products and services requiring different business, technology and marketing strategies.

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION

FINANCIAL STATEMENTS

December 31, 2005

Deloitte

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Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Distribution Division of SaskEnergy Incorporated as at December 31, 2005 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Distribution Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Distribution Division as at December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

A member firm of
Deloitte Touche Tohmatsu

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2005	2004
Assets		
Current assets		
Accounts receivable (Note 4)	$ 197,459	$ 162,937
Natural gas in storage held for resale	134,661	94,268
Intercompany accounts receivable	5,582	5,368
Inventories of supplies	6,266	5,740
	343,968	268,313
Property, plant and equipment (Note 6)	405,551	406,982
Deferred charges (Note 7)	3,948	6,361
	$ 753,467	$ 681,656
Liabilities and Holdings Division's Equity		
Current liabilities		
Bank indebtedness	$ 74,228	$ 78,117
Accounts payable (Note 8)	188,618	124,605
Intercompany accounts payable	8,938	8,718
Current portion of notes payable (Note 9)	42,043	12,372
	313,827	223,812
Notes payable to Holdings Division (Note 9)	245,071	238,603
	558,898	462,415
Holdings Division's equity		
Equity advances (Note 10)	183,450	228,410
Retained earnings (deficit)	11,119	(9,169)
	194,569	219,241
	$ 753,467	$ 681,656

Commitments (Note 11)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2005	2004
Revenue		
Delivery revenue	$ 159,847	$ 167,876
Revenue collected for municipalities (Note 12)	20,737	20,885
Other revenue (Note 13)	8,867	8,386
	189,451	197,147
Expenses		
Operating and maintenance	74,092	72,076
Transportation and storage	38,651	39,437
Amortization (Note 6)	24,350	23,784
Interest (Note 9)	16,255	16,702
Payments to municipalities (Note 12)	20,737	20,885
Saskatchewan taxes (Note 14)	3,595	3,180
	177,680	176,064
Earnings from operations before the following:	11,771	21,083
Commodity sales revenue	374,525	386,448
Cost of gas sold	(419,628)	(351,557)
Saskatchewan Energy Share (Note 3)	53,620	-
Gain on commodity sales	8,517	34,891
Net earnings	20,288	55,974
Deficit, beginning of year	(9,169)	(65,143)
Retained earnings (deficit), end of year	$ 11,119	$ (9,169)

(See accompanying notes)

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings	$ 20,288	$ 55,974
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 6)	24,350	23,784
Amortization of deferred charges	1,674	712
Sinking fund earnings (Note 9)	(989)	(660)
	45,323	79,810
Net change in non-cash working capital related to operations (Note 15)	(11,422)	(15,451)
Cash provided by operating activities	33,901	64,359
Investing Activities		
Net additions to property, plant and equipment	(26,190)	(29,780)
Increase in customer capital contributions (Note 6)	4,010	3,443
Cash used in investing activities	(22,180)	(26,337)
Financing Activities		
Decrease in equity advances from Holdings Division (Note 10)	(44,960)	(49,000)
(Decrease) increase in bank indebtedness	(3,889)	25,097
Issue of notes payable to Holdings Division	50,000	-
Repayment of notes payable to Holdings Division	(10,732)	(12,479)
Sinking fund instalments	(2,140)	(1,640)
Cash used in financing activities	(11,721)	(38,022)
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

SaskEnergy Incorporated
Distribution Division
Notes to the Financial Statements
December 31, 2005

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy has the legislated franchise right to distribute natural gas in Saskatchewan.

There are two separate divisions (business units) within SaskEnergy. These financial statements reflect only the results of operations of the natural gas distribution utility referred to as the Distribution Division, the Corporation or SaskEnergy. The other division is referred to as the Holdings Division.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The impact of rate regulation on the application of Canadian generally accepted accounting principles is described in note 5. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

b. Natural gas in storage held for resale

Natural gas in storage held for resale is stated at the lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

2. Summary of Significant Accounting Policies (continued)

c. Property, plant and equipment (continued)

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Distribution		Buildings	4.0
- Stations	3.0	Leasehold improvements	Lease term
- Mains (urban)	2.5	Computers	
- Services (urban)	3.3	- Hardware	20.0 to 50.0
- Meters	3.5	- Software	10.0 to 20.0
- Mains and services		Vehicles, tools and equipment	8.0 to 11.1
(rural)	2.5	Furniture and fixtures	4.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Revenue recognition

Delivery and commodity revenue are recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed as of December 31, is included in revenue.

e Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, risk management derivative settlements, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

f. Competitive gas sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

2. Summary of Significant Accounting Policies (continued)

g. Derivative instruments

The Corporation uses various derivative instruments to manage its operating exposures to fluctuations in foreign currency exchange rates and natural gas costs. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such instruments may be used.

The Corporation can designate a derivative instrument as a hedge when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative instruments. If correlation ceases or the Corporation terminates its designation of the derivative instrument as a hedge, future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

i. Natural gas price risk management

The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, instruments may be used as a hedge to fix the settlement amount. The types of instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, swaptions and futures contracts. The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

Derivative instruments that do not qualify for hedge accounting and derivative instruments not designated as a hedge are recorded at fair value in the statement of financial position in accounts receivable, or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings as cost of gas.

ii. Foreign currency exchange risk management

The Corporation uses instruments to hedge the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

h. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

2. Summary of Significant Accounting Policies (continued)

h. Employees' future benefits (continued)

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current service. When made, these contributions are charged to expenses.

The cost of future retirement allowance benefits earned by employees prior to 2005 is actuarially determined using the projected benefit method and management's best estimates.

i. Deferred financing charges

Included in deferred financing charges are issue costs, discounts and premiums resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

j. Saskatchewan Energy Share

The Corporation is receiving an appropriation from the Government of Saskatchewan under the Saskatchewan Energy Share. The amounts eligible to be received from the appropriation are recorded in the month in which the natural gas is sold.

3. Saskatchewan Energy Share

On November 29, 2005, the Government of Saskatchewan approved an appropriation of $123,940 thousand (titled – "SaskEnergy Incorporated Vote 77") to establish the Saskatchewan Energy Share. The Saskatchewan Energy Share is intended to reduce the cost of natural gas sold by SaskEnergy to its rate-regulated customers. The appropriation relates to the period November 1, 2005 to March 31, 2006 as it is designed to assist natural gas consumers in dealing with high natural gas prices during the winter of 2005/2006.

The financial impact of the Saskatchewan Energy Share is as follows:

a. During 2002 and 2003 SaskEnergy sold natural gas to customers below its cost. A portion of these under-recovered costs were received from customers between June, 2003 and October 31, 2005. As at October 31, 2005, SaskEnergy had not yet recovered $31,703 thousand of this past under-recovery. In order to alleviate customers from having to pay SaskEnergy for these past costs, $31,703 thousand was paid to SaskEnergy by the General Revenue Fund (GRF), a related party. As a result SaskEnergy has been fully reimbursed for these past costs.

3. Saskatchewan Energy Share (continued)

b. Through the Saskatchewan Energy Share, the Government of Saskatchewan appropriated up to $92,040 thousand which is eligible to be used by SaskEnergy to cap the cost of natural gas sold at $7.95 per Gigajoule. The appropriation relates to natural gas sold to customers during the period November 1, 2005 to March 31, 2006. For each month during this period, SaskEnergy will calculate its actual cost per Gigajoule of natural gas and compare this amount to the cap of $7.95 per Gigajoule. Should SaskEnergy's actual cost of gas be above the cap of $7.95 per Gigajoule, the General Revenue Fund (GRF) will pay SaskEnergy an amount required to reduce the cost of gas down to the cap of $7.95 per Gigajoule. Accordingly, for the month of November, 2005, SaskEnergy received $13,322 thousand from the GRF. For December, 2005 the amount was $8,595 thousand, which was received in January, 2006.

c. Certain natural gas consumers in Lloydminster, Saskatchewan receive their natural gas service from Direct Energy Regulated Services (a supplier based in Alberta). Under the Saskatchewan Energy Share, $1,000 thousand has been allocated to provide eligible Lloydminster customers with a one time credit of $200. This credit will be provided to these customers in 2006. SaskEnergy will reimburse Direct Energy Regulated Services for the total amount of the credit and then in turn recover this amount from the GRF.

4. Accounts Receivable

	2005	2004
	(thousands)	
Unbilled revenue	$ 136,023	$ 115,715
Trade accounts	42,675	30,724
Other accounts	18,761	16,498
Balance, end of year	$ 197,459	$ 162,937

5. Rate Regulation

The impact of rate regulation on the application of Canadian generally accepted accounting principles as it relates to the regulated operations of SaskEnergy is as follows:

By virtue of legislation, SaskEnergy has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order-in-Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate setting process, revenue recognition policies for commodity and delivery revenue are as described in note 2d. SaskEnergy's delivery revenue was $159,847 thousand for 2005 (2004 - $167,876 thousand) and commodity revenue was $374,525 thousand (2004 - $386,448 thousand).

5. Rate Regulation (continued)

Cost of gas sold is accounted for in accordance with the policy described in note 2e.

For those commodity sales subject to the rate setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the differences reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

In accordance with the foregoing rate-setting process, commodity revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies disclosed in Note 2d. The differences accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

6. Property, Plant and Equipment

	2005			2004		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Mains and services	$ 523,926	$ 159,813	$ 364,113	$ 511,157	$ 145,780	$ 365,377
Regulator stations	59,912	17,420	42,492	55,610	15,576	40,034
Metering	36,023	14,154	21,869	34,599	12,948	21,651
Computer systems	36,354	24,431	11,923	40,481	27,170	13,311
Vehicles, equipment	34,825	18,931	15,894	33,534	17,810	15,724
Tools, buildings and furniture	31,403	10,342	21,061	29,717	8,835	20,882
	$ 722,443	$ 245,091	477,352	$ 705,098	$ 228,119	476,979
Less: Unamortized customer capital contributions			71,801			69,997
			$ 405,551			$ 406,982

6. Property, Plant and Equipment (continued)

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2005	2004
	(thousands)	
Balance, beginning of year	$ 69,997	$ 68,721
Contributions received	4,010	3,443
Contributions amortized	(2,206)	(2,167)
Balance, end of year	$ 71,801	$ 69,997

b. Amortization

	2005	2004
	(thousands)	
Amortization of property, plant and equipment	$ 26,556	$ 25,951
Amortization of customer capital contributions	(2,206)	(2,167)
	$ 24,350	$ 23,784

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.8 per cent during 2005 (3.8 per cent during 2004).

Included in distribution assets is an amount net of amortization of $2,806 thousand (2004 - $2,904 thousand) paid to TransGas Limited (an affiliate) as a contribution in aid of construction of certain pipeline facilities. Amortization expense related to this amount in 2005 was $98 thousand (2004 - $98 thousand).

7. Deferred Charges

Deferred charges include the following:

	2005	2004
	(thousands)	
Unamortized deferred financing charges	$ 3,233	$ 4,099
Unamortized past service costs	715	2,262
	$ 3,948	$ 6,361

8. Accounts Payable

	2005	2004
	(thousands)	
Supplier payables	$ 156,448	$ 92,845
Other payables	32,170	31,760
	$ 188,618	$ 124,605

9. Notes Payable to Holdings Division

	2005		2004	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
1 - 5	$ 140,868	7.35	$ 151,600	7.60
6 - 10	50,000	4.75	-	-
11 - 30	108,971	6.60	108,971	6.33
	299,839		260,571	
Less sinking fund equity	(12,725)		(9,596)	
	287,114		250,975	
Less due within one year	(42,043)		(12,372)	
	$ 245,071		$ 238,603	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 10.7 per cent for 2005 (6.82 per cent for 2004).

9. Notes Payable to Holdings Division (continued)

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2006	2007	2008	2009	2010
Principal	$ 42,043	$ 37,254	$ 45,537	$ 16,034	$ -
Sinking fund instalments	2,140	2,140	1,840	1,590	1,590
	$ 44,183	$ 39,394	$ 47,377	$ 17,624	$ 1,590

d. Interest expense

Interest expense was as follows:

	2005	2004
	(thousands)	
Interest on notes payable to Holdings Division	$ 19,885	$ 19,241
Amortization of deferred financing charges	127	259
Interest capitalized	(67)	(46)
Interest on bank balances	(78)	108
Sinking fund earnings	(989)	(660)
Interest allocation to cost of gas sold	(2,623)	(2,200)
	$ 16,255	$ 16,702

Cash interest paid during 2005 on notes payable to Holdings Division was $20,197 thousand (2004 - $19,241 thousand).

10. Equity Advances

The Distribution Division does not have share capital. However, the Distribution Division has received equity advances from the Holdings Division to form its equity capitalization. The advances reflect an equity investment in the Distribution Division by the Holdings Division.

The Distribution Division refunded equity of $44,960 thousand in 2005 (2004 - $49,000 thousand) to Holdings Division.

11. Financial Instruments and Commitments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Notes payable to Holdings Division	$ 299,839	$ 337,610	$ 260,571	$ 292,223
Sinking fund equity	12,725	13,477	9,595	10,098
Natural gas derivatives owed to (by) SaskEnergy				
- swaps	(2,329)	5,935	-	5,048
- options	1,896	(4,090)	11,302	(11,824)

The fair values of the above instruments were based on the following:

i. Notes payable to Holdings Division - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at year end.

iii. Natural gas price swaps - The relevant index price in effect as at year end. Swap contracts have been entered into for the period January, 2006 to October, 2006.

iv. Natural gas price options - The relevant index price in effect as at year end. Option contracts have been entered into for the period January, 2006 to October, 2006.

The carrying values of other financial instruments (accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable, and intercompany accounts payable) approximate fair value due to their relatively short term nature.

11. Financial Instruments and Commitments (continued)

b. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

c. Letter of credit

The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract.

12. Revenue Collected for and Paid to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five percent or three percent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of earnings.

13. Other Revenue

Other revenue includes the following:

	2005	2004
	(thousands)	
Competitive gas sales	$ 545,366	$ 326,746
Cost of gas	539,178	320,961
Margin on competitive gas sales	6,188	5,785
Customer connect, disconnect and late payment fees	2,254	2,244
Customer service fees	425	357
	$ 8,867	$ 8,386

14. Saskatchewan Taxes

Saskatchewan taxes include the following:

	2005	2004
	(thousands)	
Corporate capital tax	$ 3,406	$ 3,052
Property tax	189	128
	$ 3,595	$ 3,180

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

15. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	2005	2004
	(thousands)	
Accounts payable	$ 64,013	$ 24,925
Intercompany accounts payable	220	(387)
Intercompany accounts receivable	(214)	1,069
Inventories of supplies	(526)	116
Accounts receivable	(34,522)	(28,651)
Natural gas in storage held for resale	(40,393)	(12,523)
	$ (11,422)	$ (15,451)

16. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Related party transactions with the Holdings Division and the Corporation's subsidiary corporations were as follows:

	2005	2004
	(thousands)	
Transportation and storage	$ 38,403	$ 39,437
Cost of gas sold	2,329	2,123
Interest expense	18,580	18,841
Delivery revenue	9,340	10,106
Other revenue	4,234	5,379
Purchase of property, plant, and equipment	-	35

Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	2005	2004
	(thousands)	
Revenue	$ 18,041	$ 18,724
Operating expenses	16,051	19,384
Accounts receivable	10,771	1,124
Customer capital contributions	674	601
Accounts payable	443	227

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

16. Related Party Transactions (continued)

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

17. Employees' Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $2,182 thousand (2004 - $2,066 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The amounts related to the defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2005	2004
	(thousands)	
Accrued benefit liability	$ 10,414	$ 9,008
Benefits paid during the year	390	430
Net expense	3,343	1,847

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2005	2004
Discount rate	4.50 per cent	4.50 per cent
Inflation rate	2.50 percent	3.00 per cent
Average remaining employee service life	13.0 years	11.0 years

Effective January 1, 2005 the retiring allowance for employees who are members of the CEP was converted to an annual contribution registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004. Entitlements, under the retiring allowance plan, earned to December 31, 2004 will be paid out to members upon their retirement in accordance with the terms of the plan.

18. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SASKENERGY INCORPORATED
HOLDINGS DIVISION

FINANCIAL STATEMENTS

December 31, 2005

Deloitte

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Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of SaskEnergy Incorporated – Holdings Division as at December 31, 2005 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements have been prepared primarily for tabling in the Legislative Assembly, Province of Saskatchewan. These financial statements are the responsibility of the Holdings Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Holdings Division as at December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting disclosed in note 3 to the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Legislative Assembly, Province of Saskatchewan. These financial statements are not intended to be and should not be used by anyone other than specified users or for any other purpose.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

SASKENERGY INCORPORATED - HOLDINGS DIVISION

Statement of Financial Position

As at December 31

(thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash	$ 75,107	$ 102,296
Dividends receivable	23,237	18,222
Short-term loans to subidiaries (Note 4)	19,471	-
Intercompany accounts receivable	12,349	12,973
Accounts receivable	1	70
	130,165	133,561
Investments (Note 5)	827,151	838,770
Deferred financing charges	4,019	3,871
	$ 961,335	$ 976,202
Liabilities and Province's Equity		
Current liabilities		
Short-term debt	$ 80,500	$ 78,900
Interest payable	12,631	13,230
Dividend payable	5,200	26,500
Current portion of long-term debt (Note 6)	71,637	106,235
	169,968	224,865
Long-term debt (Note 6)	574,657	564,532
	744,625	789,397
Province of Saskatchewan's equity		
Equity advances (Note 7)	71,531	71,531
Retained earnings	145,179	115,274
	216,710	186,805
	$ 961,335	$ 976,202

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED - HOLDINGS DIVISION

Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2005	2004
Revenue		
Dividends	$ 62,575	$ 58,581
Interest	46,685	46,785
	109,260	105,366
Expenses		
Interest (Note 6)	50,055	51,662
Operating and maintenance	-	11
	50,055	51,673
Net earnings	59,205	53,693
Retained earnings, beginning of year	115,274	131,581
Dividends	(29,300)	(70,000)
Retained earnings, end of year	$ 145,179	$ 115,274

(See accompanying notes)

SASKENERGY INCORPORATED - HOLDINGS DIVISION

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings	$ 59,205	$ 53,693
Add (deduct) items not requiring an outlay of cash		
Amortization of deferred financing costs (Note 6)	758	1,035
Sinking fund earnings (Note 6)	(3,796)	(2,301)
	56,167	52,427
Net change in non-cash working capital related to operations (Note 8)	(4,921)	20,452
Cash provided by operating activities	51,246	72,879
Investing Activities		
Increase in loans to and equity investments in subsidiaries	(162,164)	(8,283)
Repayments of loans and equity investments by subsidiaries	154,312	86,917
Cash provided by (used in) investing activities	(7,852)	78,634
Financing Activities		
Proceeds from long-term debt	75,000	19,543
Repayments of long-term debt	(101,195)	-
Decrease (increase) in financing costs	(906)	2,131
Sinking funds redemptions	11,058	-
Sinking funds instalments	(5,540)	(4,540)
Increase (decrease) in short-term debt	1,600	(31,100)
Dividends paid	(50,600)	(54,060)
Cash used in financing activities	(70,583)	(68,026)
Increase (decrease) in cash during the year	(27,189)	83,487
Cash position, beginning of year	102,296	18,809
Cash position, end of year	$ 75,107	$ 102,296

(See accompanying notes)

SaskEnergy Incorporated -
Holdings Division
Notes to the Financial Statements
December 31, 2005

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy Incorporated has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of SaskEnergy Incorporated are included in the consolidated financial statements of CIC, a provincial Crown corporation.

As a provincial Crown corporation, SaskEnergy Incorporated and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Basis of Presentation

There are two separate divisions (business units) within SaskEnergy Incorporated. These financial statements reflect only the results of operations of the division which holds interests in the subsidiaries. This division is referred to as the Holdings Division. The other division is referred to as the Distribution Division. Investments in shares of subsidiaries and equity advances to the Distribution Division are not consolidated but are recorded at cost which is not in accordance with generally accepted accounting principles. The financial statements of the Distribution Division are tabled in the Legislative Assembly.

These non-consolidated financial statements are prepared to facilitate tabling in the Legislative Assembly. All information pertinent to the resources and results of operations of the Corporation and its subsidiaries is available to CIC. Consolidated financial statements for the Corporation are presented to the Legislative Assembly.

As these financial statements have not been prepared for general purposes, some users may require consolidated financial information.

3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, except as noted above, applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Equity advances to the Distribution Division

These advances are considered to be long-term equity investments by the Holdings Division and are therefore referred to as equity advances. The equity advances are initially recorded at cost. Earnings distributions from the Distribution Division are recognized in income as dividends when receivable.

3. Summary of Significant Accounting Policies (continued)

b. Investments in wholly owned subsidiaries

Investments in wholly owned subsidiaries are accounted for on the cost method. Dividends from these subsidiaries are recognized as income when receivable.

c. Derivative instruments

The Corporation uses various derivative instruments to hedge its operating exposures to fluctuations in interest rates. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used.

The Corporation can designate a derivative instrument as a hedge when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative instruments. If correlation ceases or the Corporation terminate its designation of the derivative instrument as a hedge, future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

d. Deferred financing charges

Included in deferred financing charges are issue costs, discounts and premiums on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

4. Short-term Investments in Subsidiary

SaskEnergy Incorporated has Credit Facility Agreements with its subsidiary companies. Under these agreements, each subsidiary pays a rate of interest, determined by SaskEnergy, which is equivalent to the average interest rate SaskEnergy pays on short term notes borrowed from the Province of Saskatchewan. SaskEnergy may recall these loans without notice and the subsidiaries have the right to make repayments at any time without penalty.

5. Investments

The Holdings Division has made the following investments in and loans to its subsidiaries and the Distribution Division:

	2005	2004
	(thousands)	
a. Loans receivable *	$ 599,935	$ 568,657
b. Equity investments		
Distribution Division	183,450	228,410
SaskEnergy International Incorporated	29,385	29,385
TransGas Limited	4,001	4,001
Bayhurst Gas Limited	1,061	1,061
SaskEnergy Nova Scotia Holdings Ltd.	6,152	4,089
Swan Valley Gas Corporation	3,166	3,166
Saskatchewan First Call Corporation	1	1
Many Islands Pipe Lines (Canada) Limited **	-	-
	227,216	270,113
Total Investments	$ 827,151	$ 838,770

All companies listed in 5(b) above are wholly owned subsidiaries of the Holdings Division.

* The terms and conditions on the loans receivable from TransGas Limited, Many Islands Pipe Lines (Canada) Limited and the Distribution Division are structured so that they reflect the same terms and conditions as the Holdings Division's long-term debt. The loans are net of sinking fund instalments received from these entities.

** The recorded cost of the Many Islands Pipe Lines (Canada) Limited shares is $101 (2004 - $101).

6. Long-Term Debt

All of the long-term debt is owing to the Province of Saskatchewan's General Revenue Fund.

Years to Maturity	2005 Principal Outstanding (thousands)	2005 Average Fixed Interest Rate (per cent)	2004 Principal Outstanding (thousands)	2004 Average Fixed Interest Rate (per cent)
1 - 5	$ 308,563	7.6	$ 329,758	8.2
6 - 10	150,000	4.9	180,000	5.7
11- 15	33,971	6.7	-	0.0
16 - 35	185,000	7.1	193,971	7.3
	677,534		703,729	
Less sinking fund equity	(31,240)		(32,962)	
	646,294		670,767	
Less due within one year	(71,637)		(106,235)	
	$ 574,657		$ 564,532	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are administered by Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 10.70 per cent for 2005 (6.82 per cent for 2004).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

6. Long-Term Debt (continued)

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2006	2007	2008	2009	2010
Principal	$ 66,597	$ 47,705	$ 75,126	$ 39,136	$ 80,000
Sinking fund instalments	5,040	5,040	4,740	4,490	4,490
	$ 71,637	$ 52,745	$ 79,866	$ 43,626	$ 84,490

d. Interest expense

Interest expense was as follows:

	2005	2004
	(thousands)	
Interest on long-term debt	$ 52,104	$ 50,886
Interest on short-term debt	989	2,042
Amortization of deferred financing charges	758	1,035
Sinking fund earnings	(3,796)	(2,301)
	$ 50,055	$ 51,662

Cash interest paid during 2005 on long-term debt was $52,917 thousand (2004 - $51,254 thousand)

7. Equity Advances

The Holdings Division does not have share capital. However, the Holdings Division has received advances from CIC. The advances are considered to be an equity investment in the Holdings Division by CIC.

8. Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	2005	2004
	(thousands)	
Accounts receivable	$ 69	$ (70)
Dividends receivable	(5,015)	20,287
Intercompany accounts receivable	624	552
Interest payable	(599)	(317)
	$ (4,921)	$ 20,452

9. Related Party Transactions

Included in these financial statements are income and expense amounts resulting from operating transactions conducted with subsidiary corporations, CIC and the Saskatchewan Department of Finance.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms. Amounts due to and from related parties are described separately in these financial statements and notes.

10. Financial Instruments

a. Fair value of financial instruments

The fair value of the Holding Division's financial instruments is listed below:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term loans receivable	$ 634,476	$ 739,032	$ 607,310	$ 680,775
Sinking fund equity payable	29,506	31,250	31,854	33,525
Long-term debt	677,535	782,861	703,729	802,784
Sinking fund equity receivable	31,240	33,087	32,962	34,692

10. Financial Instruments (continued)

The fair values of these instruments were based on the following:

i. Long-term loans receivable - The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.

ii. Long-term debt - The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.

iii. Sinking fund equity payable - The fair value of the investments held in the sinking fund on behalf of the Distribution Division and subsidiaries as at year end.

iv. Sinking fund equity receivable - Equivalent to the fair value of the sinking fund receivable from the Province of Saskatchewan as at year end.

The carrying values of other financial instruments (dividends receivable, short-term loans to subsidiaries, intercompany accounts receivable, accounts receivable, short-term debt, interest payable and dividend payable) approximate fair value due to their relatively short term nature.

b. Credit risk

The Holdings Division has extended credit only to the Distribution Division and the subsidiary corporations listed in Note 5. The Holdings Division expects all amounts due to be paid. There were no credit losses in 2005.

TRANSGAS LIMITED

FINANCIAL STATEMENTS

December 31, 2005

Deloitte

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Auditors' Report

To the Shareholder of TransGas Limited

We have audited the statement of financial position of TransGas Limited as at December 31, 2005 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

TRANSGAS LIMITED
Statement of Financial Position
As at December 31
(thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash	$ 110	$ -
Accounts receivable (Note 3)	15,346	9,246
Intercompany accounts receivable	3,445	2,922
Natural gas in storage held for resale	4,032	646
Inventories of supplies	986	883
	23,919	13,697
Property, plant and equipment (Note 4)	498,098	505,400
Natural gas in storage held for operations	23,982	20,234
Deferred charges (Note 5)	2,172	3,773
	$ 548,171	$ 543,104
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ -	$ 12,196
Short term loan payable to parent (Note 6)	13,550	-
Accounts payable (Note 7)	31,072	17,134
Dividend payable	14,000	13,500
Intercompany accounts payable	14,991	12,249
Current portion of notes payable (Note 8)	26,132	92,308
	99,745	147,387
Asset retirement obligation (Note 9)	345	629
Notes payable (Note 8)	277,386	220,633
	377,476	368,649
Shareholder's equity		
Share capital (Note 10)	4,001	4,001
Retained earnings	166,694	170,454
	170,695	174,455
	$ 548,171	$ 543,104

Commitments (Note 11)

(See accompanying notes)

On behalf of the Board:

Director

Director

TRANSGAS LIMITED

Statement of Earnings and Retained Earnings

Years ended December 31

(thousands of dollars)

	2005	2004
Revenue		
Transportation and storage	$ 134,245	$ 136,235
Revenue collected for municipalities (Note 13)	6,936	3,385
	141,181	139,620
Expenses		
Operating and maintenance	59,455	56,388
Interest (Note 8)	26,154	26,761
Amortization (Note 4)	24,809	23,945
Payments to municipalities (Note 13)	6,936	3,385
Saskatchewan taxes (Note 14)	2,437	2,377
	119,791	112,856
Net earnings	21,390	26,764
Retained earnings, beginning of year:	170,454	172,890
Dividends	(25,150)	(29,200)
Retained earnings, end of year	$ 166,694	$ 170,454

(See accompanying notes)

TRANSGAS LIMITED
Statement of Cash Flows
Years ended December 31
(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings	$ 21,390	$ 26,764
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 4)	24,809	23,945
Amortization of deferred charges	1,131	705
Asset retirement obligation	(39)	-
Sinking fund earnings (Note 8)	(2,673)	(1,584)
	44,618	49,830
Net change in non-cash working capital related to operations (Note 15)	6,568	(9,650)
Cash provided by operating activities	51,186	40,180
Investing Activities		
Net additions to property, plant and equipment	(22,599)	(33,211)
Increase in customer capital contributions (Note 4)	4,847	6,840
Increase in natural gas in storage held for operations	(3,748)	(35)
Cash used in investing activities	(21,500)	(26,406)
Financing Activities		
(Decrease) increase in bank indebtedness	(12,196)	12,196
Dividends paid	(24,650)	(37,200)
Net increase in short term loan payable to parent	13,550	-
Proceeds on issue of notes payable	75,470	-
Repayment of notes payable	(90,008)	(17,449)
Sinking fund redemptions	11,058	-
Sinking fund instalments	(2,800)	(2,300)
Cash used in financing activities	(29,576)	(44,753)
Increase (decrease) in cash during the year	110	(30,979)
Cash position, beginning of year	-	30,979
Cash position, end of year	$ 110	$ -

(See accompanying notes)

TransGas Limited
Notes to the Financial Statements
December 31, 2005

1. Status of the Corporation

TransGas Limited was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. TransGas Limited is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The Corporation operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end use customers, marketers and export producers. The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. The Corporation also provides natural gas storage services.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of general supplies used for construction and maintenance and are recorded at the lower of average cost or replacement cost.

b. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost. Natural gas in storage held for operations is located within the Corporation's various underground natural gas storage facilities and is required for the ongoing operation of the storage facilities.

c. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds, received, to accumulated amortization.

2. Summary of Significant Accounting Policies (continued)

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	4.0 to 33.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Asset retirement obligation

The Corporation records the costs associated with the future decommissioning of certain natural gas storage facilities when a reasonable estimate is known. The estimate is recorded as part of the related asset along with a related obligation. Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to earnings in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

e. Revenue recognition

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

f. Rate regulation

The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. Accordingly, transportation rates are subject to approval by the Provincial Cabinet. The financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles and are not impacted by this rate approval process.

g. Derivative instruments

The Corporation uses various derivative instruments to hedge exposure to fluctuations in natural gas prices. The hedges are executed by SaskEnergy on behalf of the Corporation. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used.

The Corporation can designate a derivative instrument as a hedge when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative instruments. If correlation ceases or the Corporation terminates its designation of the derivative instrument as a hedge, future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

2. Summary of Significant Accounting Policies (continued)

i. Natural gas price risk management

The sale price of natural gas may be fixed within a contract, or referenced to a variable index price. When the price is referenced to a variable index price, derivative instruments may be used as a hedge to fix the settlement amount. The types of derivative instruments used to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market.

ii. Foreign currency exchange risk management

The Corporation uses derivative instruments to hedge the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, the Corporation may use currency forwards and currency options.

Derivative instruments that do not qualify as a hedge and derivative instruments not designated as a hedge are recorded at fair value in the statement of financial position in accounts receivable or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings.

g. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

The cost of future retirement allowance benefits earned by employees prior to 2005 is actuarially determined using the projected benefit method and management's best estimates.

h. Deferred financing charges

Included in deferred financing charges are issue costs, discounts and premiums incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. Accounts Receivable

	2005	2004
	(thousands)	
Unbilled revenue	$ 10,761	$ 7,122
Trade accounts	4,305	1,799
Other accounts	280	325
	$ 15,346	$ 9,246

4. Property, Plant and Equipment

	2005			2004		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 594,877	$ 180,099	$ 414,778	$ 576,471	$ 164,800	$ 411,671
Gathering, treatment and compression	134,668	59,475	75,193	146,229	59,060	87,169
Vehicles, equipment and other	66,575	41,108	25,467	61,335	36,143	25,192
Construction in progress	31,161	-	31,161	26,357	-	26,357
	$ 827,281	$ 280,682	546,599	$ 810,392	$ 260,003	550,389
Less: Unamortized customer capital contributions			48,501			44,989
			$ 498,098			$ 505,400

During 2005, the Corporation designated two compressor units as being held for sale. As at December 31, one of the units and related assets was sold. The remaining unit is classified as held for sale and is included above within compression assets at its estimated net realizable value. The net book value exceeded the estimated realizable value of the units and related assets by $3,479 thousand. This amount is reflected as an expense in the statement of earnings in operating and maintenance.

4. Property, Plant and Equipment (continued)

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2005	2004
	(thousands)	
Balance, beginning of year	$ 44,989	$ 39,310
Contributions received	4,847	6,840
Contributions amortized	(1,335)	(1,161)
Balance, end of year	$ 48,501	$ 44,989

b. Amortization

	2005	2004
	(thousands)	
Amortization of property, plant and equipment	$ 26,144	$ 25,106
Amortization of customer capital contributions	(1,335)	(1,161)
	$ 24,809	$ 23,945

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.3 per cent during 2005 (3.3 per cent during 2004).

Included in transmission assets is an amount of $2,806 thousand (2004 - $2,904 thousand) received from SaskEnergy for customer capital contributions in aid of construction of certain transmission facilities. Amortization of customer capital contributions related to this amount in 2005 was $98 thousand (2004 - $98 thousand).

5. Deferred Charges

Deferred charges include the following:

	2005	2004
	(thousands)	
Unamortized deferred financing charges	$ 1,961	$ 2,866
Unamortized past service costs	211	907
	$ 2,172	$ 3,773

6. Short Term Loan Payable To Parent

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy whereby it may borrow $100,000 thousand on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice.

7. Accounts Payable

	2005	2004
	(thousands)	
Supplier payables	$ 20,041	$ 10,447
Other payables	11,031	6,687
	$ 31,072	$ 17,134

8. Notes Payable

Years to Maturity	2005 Principal Outstanding (thousands)	2005 Average Fixed Interest Rate (per cent)	2004 Principal Outstanding (thousands)	2004 Average Fixed Interest Rate (per cent)
Notes payable to parent				
1 - 5	$ 165,115	7.8	$ 175,123	8.7
6 - 10	50,000	4.8	80,000	6.1
16 - 30	100,000	7.8	75,000	8.7
	315,115		330,123	
Less sinking fund equity	(16,412)		(21,997)	
	298,703		308,126	
Less due within one year	(26,132)		(92,308)	
	272,571		215,818	
Other debt	4,815	13.5	4,815	13.5
	$ 277,386		$ 220,633	

8. Notes Payable (continued)

a Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SaskEnergy, TransGas Limited is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by Saskatchewan's Department of Finance on behalf of the parent.

The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 10.7 per cent for 2005 (6.82 per cent for 2004).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2006	2007	2008	2009	2010
Principal	$ 23,832	$ 10,144	$ 28,718	$ 22,422	$ 80,000
Sinking fund instalments	2,300	2,300	2,300	2,300	2,300
	$ 26,132	$ 12,444	$ 31,018	$ 24,722	$ 82,300

d. Interest expense

Interest expense was as follows:

	2005	2004
	(thousands)	
Interest on notes payable to parent	$ 28,681	$ 27,906
Interest on other debt	650	650
Amortization of deferred financing charges	432	524
Interest income on short term investments	(400)	(229)
Interest capitalized	(536)	(506)
Sinking fund earnings	(2,673)	(1,584)
	$ 26,154	$ 26,761

Cash interest paid during the year on notes payable to parent was $29,162 thousand (2004 - $28,118 thousand).

9. Asset Retirement Obligation

The Corporation has estimated the future costs of decommissioning certain natural gas storage facilities. These facilities will be decommissioned over the period of 2006 to 2014. The estimated future cash flows required to settle this obligation of $463 thousand are discounted to $345 thousand (2004 - $629 thousand) using credit adjusted risk free rates ranging from 3.2 to 6.8 per cent.

During the year, the Corporation recognized expenses of $29 thousand (2004 - nil); a revision in cash flow estimates of $245 thousand (2004 - nil); and a settlement of $68 thousand (2004 - nil) related to this asset retirement obligation.

10. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Thirty (30) shares (2004 - thirty) are issued and outstanding.

11. Financial Instruments and Commitments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Notes payable	$ 315,115	$ 376,167	$ 334,938	$ 401,198
Sinking fund equity	16,412	17,383	21,997	23,151
Natural gas price hedges owed to TransGas - swaps	-	7,603	-	2,496

The fair values of the above instruments were based on the following:

i. Notes payable - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at year end.

iii. Natural gas price swaps - The relevant index price in effect as at year end. Swap contracts have been entered into for the period January, 2006 to October, 2006.

iv. Natural gas price options – The relevant index price in effect as at year end.

11. Financial Instruments and Commitments (continued)

The carrying values of other financial instruments (accounts receivable, intercompany accounts receivable, short term loan payable to parent, accounts payable, dividend payable, and intercompany accounts payable) approximate fair value due to their relatively short term nature.

b. Credit risk management

The Corporation provides credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. Excluding related parties (see Note 14), the Corporation has approximately 121 customers. There were no credit losses in 2005 (2004 - no credit losses).

c. The Corporation has entered into forward purchase agreements to purchase 3.0 Petajoules and sell 2.1 Petajoules of natural gas during 2006.

d. The Corporation has entered into natural gas price swaps with counterparties, to fix the purchase price for a total of 2.6 Petajoules in 2006.

e. The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The base lease payments are as follows: (thousands)

2006	2007	2008	2009	2010	Thereafter	Total
$199	$204	$210	$215	$220	$111	$1,159

12. Rate Regulation

By virtue of legislation, TransGas Limited has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, Cabinet has the authority to set transportation rates charged to shippers.

Based on the foregoing rate setting process, revenue recognition policies for transportation revenue are as described in note 2e. The Corporation's transportation revenue was $105,067 thousand for 2005 (2004 - $109,255 thousand).

13. Revenue Collected for and Paid to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the revenue collected to certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities on the statement of earnings and retained earnings.

14. Saskatchewan Taxes

Saskatchewan taxes include the following:

	2005	2004
	(thousands)	
Corporate capital tax	$ 1,916	$ 1,965
Mitigation payments and property taxes	521	412
	$ 2,437	$ 2,377

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

15. Net Change in Non-Cash Working Capital

	2005	2004
	(thousands)	
Accounts receivable	$ (6,100)	$ (578)
Intercompany accounts receivable	(523)	(37)
Natural gas in storage held for resale	(3,386)	(646)
Inventories of supplies	(103)	(512)
Accounts payable	13,938	(7,426)
Intercompany accounts payable	2,742	(451)
	$ 6,568	$ (9,650)

16. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SaskEnergy and its subsidiaries were as follows:

	2005	2004
	(thousands)	
Transportation and storage revenue	$ 47,833	$ 49,819
Operating and maintenance expenses	15,112	15,379
Interest expense	26,635	26,848

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	2005	2004
	(thousands)	
Accounts receivable	$ 707	$ 238
Accounts payable	101	114
Revenue	20,880	19,930
Operating expenses	7,737	5,366
Customer capital contributions	3,711	3,719

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

17. Employees' Future Benefits

a. Pension plans

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $722 thousand (2004 - $736 thousand) on behalf of employees for current services.

b. Retiring Allowance Plan

The amounts related to the defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2005	2004
	(thousands)	
Accrued benefit liability	**$ 3,482**	$ 3,165
Benefits paid during the year	**166**	64
Net expense	**1,179**	459

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2005	2004
Discount rate	**4.50 per cent**	4.50 per cent
Inflation rate	**2.50 per cent**	3.00 per cent
Average remaining employee service life	**13.6 years**	11.0 years

Effective January 1, 2005 the retiring allowance for employees who are members of the CEP was converted to an annual contribution registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004. Entitlements, under the retiring allowance plan, earned to December 31, 2004 will be paid out to members upon their retirement in accordance with the terms of the plan.

MANY ISLANDS PIPE LINES (CANADA) LIMITED

FINANCIAL STATEMENTS

December 31, 2005

Deloitte

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Canada

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Auditors' Report

To the Shareholder of Many Islands Pipe Lines (Canada) Limited

We have audited the statement of financial position of Many Islands Pipe Lines (Canada) Limited as at December 31, 2005 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

MANY ISLANDS PIPE LINES (CANADA) LIMITED

Statement of Financial Position

As at December 31

(thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash	$ 45	$ -
Accounts receivable	138	184
Intercompany accounts receivable	673	-
	856	184
Property, plant and equipment (Note 3)	16,934	17,491
	$ 17,790	$ 17,675
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ -	$ 1,028
Short term loan payable to parent (Note 4)	1,316	-
Accounts payable	89	141
Intercompany accounts payable	280	155
Current portion of notes payable (Note 5)	803	535
	2,488	1,859
Notes payable to parent (Note 5)	9,618	10,457
	12,106	12,316
Shareholder's equity		
Share capital (Note 6)	-	-
Retained earnings	5,684	5,359
	5,684	5,359
	$ 17,790	$ 17,675

(See accompanying notes)

On behalf of the Board:

Director

Director

MANY ISLANDS PIPE LINES (CANADA) LIMITED
Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2005	2004
Revenue		
Transportation	$ 3,865	$ 3,525
Expenses		
Operating and maintenance	1,231	1,213
Interest (Note 5)	778	842
Amortization	642	653
Saskatchewan taxes (Note 8)	889	662
Loss on disposal of property, plant and equipment	-	129
	3,540	3,499
Net earnings	325	26
Retained earnings, beginning of year	5,359	5,448
Dividends	-	(115)
Retained earnings, end of year	$ 5,684	$ 5,359

(See accompanying notes)

MANY ISLANDS PIPE LINES (CANADA) LIMITED
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings	$ 325	$ 26
Add (deduct) items not requiring an outlay of cash		
Amortization	642	653
Amortization of premium on notes payable	(8)	(8)
Sinking fund earnings	(26)	(15)
Loss on disposal of property, plant and equipment	-	129
	933	785
Net change in non-cash working capital related to operations (Note 9)	(554)	(247)
Cash provided by operating activities	379	538
Investing Activities		
Additions to property, plant, and equipment	(87)	(16)
Proceeds from sale of property, plant and equipment	-	60
Cash (used in) provided by investing activities	(87)	44
Financing Activities		
Reduction in bank indebtedness	(1,028)	335
Net increase in short term loan payable to parent	1,316	-
Repayment of notes payable to parent	(535)	(609)
Dividends paid	-	(308)
Cash used in financing activities	(247)	(582)
Increase in cash during the year	45	-
Cash position, beginning of year	-	-
Cash position, end of year	$ 45	$ -

(See accompanying notes)

Many Islands Pipe Lines (Canada) Limited
Notes to the Financial Statements
December 31, 2005

1. Status of the Corporation

Many Islands Pipe Lines (Canada) Limited was incorporated on July 2, 1972 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation owns and/or operates fourteen natural gas transmission pipelines: eleven Alberta-to-Saskatchewan interconnect pipelines, two United States-to-Saskatchewan interconnect pipelines, and one Manitoba-to-Saskatchewan interconnect pipeline. The pipelines are located mainly in Saskatchewan and either cross or terminate at the Alberta, Manitoba and United States borders. The Corporation is regulated by the National Energy Board.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset as follows: (in per cent) transmission 2.6, compression 3.5, treatment 2.5, and other from 2.5 to 15.0.

b. Revenue recognition

Revenue is recognized when transportation services are provided to customers. An estimate of transportation services rendered, but not billed, is included in revenue.

c. Regulation

The business activities of the Corporation are regulated by the National Energy Board.

3. Property, Plant and Equipment

	2005			2004		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission	$ 23,984	$ 7,414	$ 16,570	$ 23,897	$ 6,800	$ 17,097
Compression	775	474	301	775	447	328
Treatment	14	6	8	14	6	8
Other	521	466	55	521	463	58
	$ 25,294	$ 8,360	$ 16,934	$ 25,207	$ 7,716	$ 17,491

The composite rate of amortization was 2.6 per cent during 2005 (2.6 per cent during 2004).

a. On April 1, 1988, the Corporation acquired a pipeline from Consolidated Pipe Lines Company (CPL). The original cost of the pipeline to CPL was $9,182 thousand and accumulated amortization of $6,879 thousand had been recorded as of April 1, 1988.

b. Pursuant to a National Energy Board (NEB) order dated April 11, 1991 the Corporation acquired a pipeline from its parent company, SaskEnergy Incorporated. Pursuant to a NEB order also dated April 11, 1991, SaskEnergy acquired the pipeline from Saskatchewan Power Corporation (SPC). The original cost of this pipeline to SPC was $264 thousand and accumulated amortization of $151 thousand had been recorded as of April 11, 1991.

c. On December 9, 1993, the Corporation purchased a pipeline from an affiliated company, TransGas Limited, pursuant to a NEB order dated December 9, 1993. The original cost of the pipeline to TransGas Limited was $2,895 thousand and accumulated amortization of $62 thousand had been recorded as of December 9, 1993.

4. Short Term Loan Payable to Parent

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow up to $2,500 thousand on a revolving basis. The Corporation pays interest at a rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short term notes borrowed from the Province of Saskatchewan. Under this agreement, the Corporation may make repayments at any time without penalty, and SaskEnergy may terminate the loans without notice.

5. Notes Payable to Parent

Years to Maturity	2005 Principal Outstanding (thousands)	2005 Average Fixed Interest Rate (per cent)	2004 Principal Outstanding (thousands)	2004 Average Fixed Interest Rate (per cent)
1 - 5	$ 2,581	9.4	$ 3,036	9.6
6 - 10	-	-	-	-
16 - 30	8,209	6.4	8,218	6.4
	10,790		11,254	
Less sinking fund equity	(369)		(262)	
	10,421		10,992	
Less due within one year	(803)		(535)	
	$ 9,618		$ 10,457	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SaskEnergy, the Corporation is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are administered by Saskatchewan's Department of Finance on behalf of the parent.

The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 10.7 per cent for 2005 (6.8 per cent for 2004).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2006	2007	2008	2009	2010
Principal	$ 723	$ 307	$ 871	$ 680	$ -
Sinking fund instalments	80	80	80	80	80
	$ 803	$ 387	$ 951	$ 760	$ 80

5. Notes Payable to Parent (continued)

d. Interest expense

Interest expense was as follows:

	2005	2004
	(thousands)	
Interest on notes payable to parent	$ 785	$ 839
Interest on short term borrowings	10	-
Interest on bank indebtedness	15	26
Sinking fund earnings	(26)	(15)
Amortization of premium	(6)	(8)
	$ 778	$ 842

e. Cash interest paid during the year on notes payable to parent was $805 thousand (2004 - $847 thousand).

6. Share Capital

Authorized share capital consists of 50,000 Class A common shares without nominal or par value. One hundred and one shares (2004 - 101) are issued and outstanding. The shares were issued for nominal consideration of $101.

7. Rate regulation

The business activities of the Corporation are regulated by the National Energy Board.

Revenue recognition policies for the Corporation's transportation revenue are as described in Note 2b. The Corporation's transportation revenue for 2005 was $3,865 thousand (2004 - $3,525 thousand).

8. Saskatchewan Taxes

Saskatchewan taxes include the following:

	2005	2004
	(thousands)	
Property taxes	$ 868	$ 630
Corporate capital tax	21	32
	$ 889	$ 662

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

9. Net Change in Non-Cash Working Capital

	2005	2004
	(thousands)	
Accounts receivable	$ 46	$ 59
Intercompany accounts receivable	(673)	-
Accounts payable	(52)	(16)
Intercompany accounts payable	125	(290)
	$ (554)	$ (247)

10. Financial Instruments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Notes payable to parent	$ 10,581	$ 13,136	$ 11,254	$ 12,792
Sinking fund equity	369	391	262	276

The fair values of the above instruments were based on the following:

i. Notes payable to parent - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at December 31, 2005.

The carrying values of other financial instruments (accounts receivable, short term loan payable to parent, accounts payable, intercompany accounts payable, dividend payable and bank indebtedness) approximate fair value due to their relatively short term nature.

b. Credit risk

The Corporation provides credit to its customers in the normal course of business. Excluding related parties (see Note 11), the Corporation has ten customers from which it earns approximately one-half of its revenue. The Corporation had a maximum credit exposure to any individual customer of approximately $110 thousand. There were no credit losses in 2005.

11. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SaskEnergy and its subsidiaries were as follows:

	2005	2004
	(thousands)	
Revenue	$ 2,538	$ 1,729
Operating and maintenance expenses	1,006	948
Interest expense	753	818

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions include operating expenses of $27 thousand (2004 - $38 thousand).

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

BAYHURST GAS LIMITED

FINANCIAL STATEMENTS

December 31, 2005

Deloitte

Deloitte & Touche LLP
900 - 2103 11th Ave
Bank of Montreal Building
Regina SK S4P 3Z8
Canada

Tel: (306) 565-5200
Fax: (306) 757-4753
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Auditors' Report

To the Shareholder of Bayhurst Gas Limited

We have audited the statement of financial position of Bayhurst Gas Limited as at December 31, 2005 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

BAYHURST GAS LIMITED
Statement of Financial Position

As at December 31
(thousands of dollars)

	2005	2004
Assets		
Current assets		
Accounts receivable	$ 1,484	$ 889
Intercompany accounts receivable	2,790	375
Natural gas in storage held for resale	853	1,378
	5,127	2,642
Natural gas in storage held for resale	4,036	4,806
Property, plant and equipment (Note 3)	8,178	8,890
	$ 17,341	$ 16,338
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 276	$ 7,405
Short term loan payable to parent (Note 4)	3,595	-
Accounts payable	518	486
Intercompany accounts payable	156	282
Dividend payable	9,237	4,722
	13,782	12,895
Asset retirement obligation (Note 5)	2,498	2,382
	16,280	15,277
Shareholder's equity		
Share capital (Note 6)	1,061	1,061
Retained earnings	-	-
	1,061	1,061
	$ 17,341	$ 16,338

Commitments (Note 7)

(See accompanying notes)

On behalf of the Board:

Director

Director

BAYHURST GAS LIMITED

Statement of Earnings and Retained Earnings

Years ended December 31

(thousands of dollars)

	2005	2004
Revenue		
Net revenue from natural gas sales (Note 8)	$ 33,991	$ 26,865
Royalties	6,226	5,421
Service fee	312	692
	40,529	32,978
Expenses		
Operating and maintenance	1,906	2,464
Amortization (Note 3)	1,127	1,055
Interest	64	66
Saskatchewan taxes	7	6
	3,104	3,591
Net earnings	37,425	29,387
Retained earnings (deficit), beginning of year	-	(121)
Dividends	(37,425)	(29,266)
Retained earnings, end of year	$ -	$ -

(See accompanying notes)

BAYHURST GAS LIMITED
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings	$ 37,425	$ 29,387
Add items not requiring an outlay of cash		
Amortization of propery, plant and equipment (Note 3)	1,127	1,055
Asset retirement obligation	116	110
	38,668	30,552
Net change in non-cash working capital related to operations (Note 10)	(1,809)	102
Cash provided by operating activities	36,859	30,654
Investing Activities		
Additions to property, plant, and equipment	(398)	(147)
(Decrease) increase in customer capital contributions	(17)	62
Cash used in investing activities	(415)	(85)
Financing Activities		
Dividends paid	(32,910)	(41,360)
Net increase in short term loan payable to parent	3,595	-
Cash used in financing activities	(29,315)	(41,360)
Increase (decrease) in cash during the year	7,129	(10,791)
Cash position, beginning of year	(7,405)	3,386
Cash position, end of year	$ (276)	$ (7,405)

(See accompanying notes)

Bayhurst Gas Limited
Notes to the Financial Statements
December 31, 2005

1. Status of the Corporation

Bayhurst Gas Limited was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of its parent, SaskEnergy.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Natural gas in storage held for resale

Natural gas in storage held for resale is stated at cost. The estimated amount to be sold in 2006 is classified as a current asset, with the remainder classified as non-current.

b. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	20 to 50
Compression	3.5 to 50

c. Asset retirement obligation

The Corporation records the costs associated with the future decommissioning of certain natural gas storage facilities when a reasonable estimate is known. The estimate is recorded as part of the related asset along with a related obligation. Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to earnings in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

2. Summary of Significant Accounting Policies (continued)

d. Revenue recognition

For natural gas sales, revenue is recognized in the financial statements upon completion of the delivery of natural gas to the customer. .

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

The Corporation charges a service fee for natural gas loaned to an affiliate. The service fee revenue is recognized when the natural gas is made available to the affiliate.

e. Derivative instruments

The Corporation uses various derivative instruments to hedge exposure to fluctuations in natural gas selling prices. The hedges are executed by SaskEnergy on behalf of the Corporation.

The sale price of natural gas may be fixed within a contract, or referenced to a variable index price. When the price is referenced to a variable index price, derivative instruments may be used as a hedge to fix the settlement amount. The types of derivative instruments used to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market.

A Corporate Derivatives Policy and specific hedging strategies establish the guidelines by which such instruments may be used. These policies require that derivative instruments be used only to manage risks associated with transactions undertaken in the normal course of business.

The Corporation can designate a derivative instrument as a hedge when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative instruments. If correlation ceases or the Corporation terminates its designation of the derivative instrument as a hedge, future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

Derivative instruments that do not qualify as a hedge and derivative instruments not designated as a hedge are recorded at fair value in the statement of financial position in accounts receivable or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings.

3. Property, Plant and Equipment

	2005			2004		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Compression	$ 5,799	$ 1,356	$ 4,443	$ 5,630	$ 935	$ 4,695
Storage	4,028	1,691	2,337	4,012	1,236	2,776
Transmission	2,185	899	1,286	2,105	647	1,458
Construction in progress	156	-	156	23	-	23
	$ 12,168	$ 3,946	8,222	$ 11,770	$ 2,818	8,952
Less:						
Unamortized customer capital contributions			44			62
			$ 8,178			$ 8,890

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2005	2004
	(thousands)	
Balance, beginning of year	$ 62	$ -
Contributions received (refunded)	(17)	62
Contributions amortized	(1)	-
Balance, end of year	$ 44	$ 62

3. Property, Plant and Equipment (continued)

b. Amortization

	2005	2004
	(thousands)	
Amortization of property, plant and equipment	$ 1,128	$ 1,055
Amortization of customer capital contributions	(1)	-
	$ 1,127	$ 1,055

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 9.4 per cent during 2005 (9.0 per cent during 2004).

4. Short Term Loan Payable to Parent

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow up to $20,000 thousand on a revolving basis. The Corporation pays interest at a rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short term notes borrowed from the Province of Saskatchewan. Under this agreement, the Corporation may make repayments at any time without penalty, and SaskEnergy may terminate the loans without notice.

5. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas storage facilities. These facilities will be decommissioned by 2010. As of December 31, 2005 the estimated future cash flow required to settle this obligation of $3,163 thousand was discounted to $2,498 thousand (2004 - $2,382 thousand) using a credit adjusted risk free rate of 4.84 per cent.

6. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. One hundred twenty (120) shares (2004 - 120 shares) are issued and outstanding.

7. Financial Instruments

a. Fair value of financial instruments

The Corporation holds natural gas in storage available for sale in 2006 and 2007. As at December 31, 2005, the Corporation has entered into forward sales agreements to sell 0.9 Petajoules of natural gas during 2006.

The Corporation has entered into natural gas price swaps, to fix the selling price for 3.0 Petajoules of the natural gas available for sale during 2006 and 0.6 Petajoules of the natural gas committed for sale during 2007.

7. Financial Instruments (continued)

The fair value of the natural gas price swaps is $11,176 thousand owing by the Corporation (2004 – $1,862 thousand) as at December 31, 2005. The fair values of the natural gas price swaps were based on the relevant index price in effect as at year end. Swap contracts have been entered into for the period January, 2006 to October, 2006 and April, 2007 to October, 2007.

The carrying values of other financial instruments (accounts receivable, intercompany accounts receivable, short term loan payable to parent, accounts payable, intercompany accounts payable, and dividend payable) approximate fair value due to their relatively short term nature.

b. Credit risk management of natural gas

The Corporation receives monthly royalty revenue from certain natural gas properties located in Saskatchewan and Alberta. The largest receipts (approximately 70 per cent) are from one non-related company. The Corporation expects all future royalty payments to be received in accordance with the terms and conditions of the royalty agreements. There were no credit losses in 2005.

8. Net Revenue From Natural Gas Sales

Net revenue from natural gas sales consists of the following:

	2005	2004
	(thousands)	
Sales of natural gas	$ 40,352	$ 32,289
Less:		
Cost of natural gas sold	3,066	2,749
Royalties	3,295	2,675
Net revenue from natural gas sales	$ 33,991	$ 26,865

$33,420 thousand (2004 - $27,093 thousand) gross revenue from natural gas sales was generated from natural gas purchased from an affiliate at nil cost on January 1, 2003. The consideration was equal to the affiliate's carrying value.

9. Interest Expense

During the year, the Corporation made cash payments for interest on bank indebtedness to the parent of $41 thousand (2004 – $58 thousand).

10. Net Change in Non-Cash Working Capital

	2005	2004
	(thousands)	
Accounts receivable	$ (595)	$ (58)
Intercompany accounts receivable	(2,415)	398
Natural gas in storage held for resale	1,295	335
Accounts payable	32	117
Intercompany accounts payable	(126)	(690)
	$ (1,809)	$ 102

11. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SaskEnergy and its subsidiaries were as follows:

	2005	2004
	(thousands)	
Net revenue from natural gas sales	$ 435	$ 226
Service fee	307	693
Operating and maintenance expenses	1,806	2,166
Natural gas in storage held for resale	-	157

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

11. Related Party Transactions (continued)

These transactions, and amounts outstanding at year end, are as follows:

	2005	2004
	(thousands)	
Natural gas in storage held for resale	$ -	$ 401
Royalties expense	3,295	2,675

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

SWAN VALLEY GAS CORPORATION

FINANCIAL STATEMENTS

December 31, 2005

Deloitte

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900 - 2103 11th Ave
Bank of Montreal Building
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Auditors' Report

To the Shareholder of Swan Valley Gas Corporation

We have audited the statement of financial position of Swan Valley Gas Corporation as at December 31, 2005 and the statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

SWAN VALLEY GAS CORPORATION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash	$ 27	$ 224
Short term loan receivable from parent	295	-
Intercompany accounts receivable	246	175
Accounts receivable	194	247
	762	646
Property, plant and equipment (Note 5)	1,775	1,854
	$ 2,537	$ 2,500
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	$ 60	$ 66
Intercompany accounts payable	179	161
	239	227
Shareholder's equity		
Share capital (Note 6)	3,167	3,167
Deficit	(869)	(894)
	2,298	2,273
	$ 2,537	$ 2,500

(See accompanying notes)

On behalf of the Board:

Director

Director

SWAN VALLEY GAS CORPORATION
Statement of Earnings and Deficit

Years ended December 31
(thousands of dollars)

	2005	2004
Revenue		
Natural gas sales	$ 691	$ 533
Cost of gas sold	722	650
Natural gas sales margin	(31)	(117)
Delivery revenue	613	606
Other revenue	20	9
Net revenue	602	498
Expenses		
Transportation	323	326
Operating and maintenance	184	123
Amortization (Note 5)	70	62
Interest	-	23
	577	534
Net earnings (loss)	25	(36)
Deficit, beginning of year	(894)	(858)
Deficit, end of year	$ (869)	$ (894)

(See accompanying notes)

SWAN VALLEY GAS CORPORATION
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings (loss)	$ 25	$ (36)
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 5)	70	62
Sinking fund earnings	-	(1)
	95	25
Net change in non-cash working capital related to operations (Note 7)	(6)	106
Cash provided by operating activities	89	131
Investing Activities		
Adjustments to property, plant and equipment	8	(24)
Increase (decrease) in capital contributions (Note 5)	1	(20)
Proceeds from sale of property, plant and equipment	-	35
Cash provided by (used in) investing activities	9	(9)
Financing Activities		
Decrease in bank indebtedness	-	(1,063)
Decrease in note payable to parent	-	(2,001)
Increase in share capital	-	3,166
Net increase in short term loan receiveable from parent	(295)	-
Cash (used in) provided by financing activities	(295)	102
(Decrease) increase in cash during the year	(197)	224
Cash position, beginning of year	224	-
Cash position, end of year	$ 27	$ 224

(See accompanying notes)

Swan Valley Gas Corporation
Notes to the Financial Statements
December 31, 2005

1. Status of the Corporation

Swan Valley Gas Corporation (SVGC) was created on November 30, 1999 under *The Corporations Act of Manitoba*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation operates natural gas transmission and distribution facilities in the Swan Valley region of Manitoba. The Corporation contracts with SaskEnergy and its affiliated corporations for its natural gas supply, transportation and storage requirements. The Corporation takes delivery of natural gas at the inlet to its facilities approximately one kilometre east of the Manitoba-Saskatchewan border.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and allowance for interest costs related to financing construction of the related assets.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows (in per cent):

General Plant	5.00
Service Lines and Meters	3.45
Pressure Regulation Stations	3.03
Main Lines	2.50

b. Capital contributions

Capital contributions relate to construction of new natural gas distribution facilities. These contributions are amortized to income on a straight-line basis over the estimated service life of the related asset.

c. Revenue recognition

Revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

2. Summary of Significant Accounting Policies (continued)

d. Regulation

The business activities of the Corporation are regulated by the Manitoba Public Utilities Board (MPUB).

The Corporation follows generally accepted accounting principles for its regulated operations which may differ from those otherwise expected in non-regulated businesses. These differences occur when the regulatory agency exercises its statutory authority and renders specific accounting and other rate-making decisions. In addition to defining certain accounting requirements, the regulatory agency has jurisdiction over a number of other principal matters, which include but are not limited to, the rates to be charged for the sale and distribution of natural gas and approval and recovery of costs for major construction and operations.

For rate setting purposes, the Corporation's approved selling price for natural gas is based on the principle that it neither profits from nor incurs a loss on sale.

3. Purchase Gas Variance Account

The Purchase Gas Variance Account (PGVA) accumulates differences between commodity revenue and the cost of gas sold. Subject to approval of the MPUB, balances accumulated in the PGVA are either recovered from or refunded to customers through future rates.

The PGVA has accumulated a balance of $417 thousand to December 31, 2005 consisting entirely of unrecovered transportation costs.

Due to lower than forecast natural gas sales over the past five years, the Corporation has been unable to recover all of the fixed transport component of its cost of gas sold. Accordingly, during 2005 the Corporation increased the provision by $31 thousand ($117 thousand - 2004) bringing the accumulated provision for unrecoverable transportation costs to $417 thousand. The current year provision of $31 thousand is reported as cost of gas sold in 2005. There is uncertainty as to whether the $417 thousand will be recoverable within a reasonable timeframe from the existing customer base. For rate setting purposes, these transportation costs totaling $417 thousand can be recovered in future rates subject to approval by the MPUB.

4. Short term Loan Receivable From Parent

SVGC has a Credit Facility Agreement with its parent company. Under this agreement, the Corporation receives a rate of interest, determined by SaskEnergy, which is equivalent to the average interest rate that SaskEnergy earns on short term notes invested with the Province of Saskatchewan. SaskEnergy may make repayments at any time without penalty.

5. Property, Plant and Equipment

	2005			2004		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Main lines	$ 6,368	$ 762	$ 5,606	$ 6,381	$ 603	$ 5,778
Service lines and meters	1,266	189	1,077	1,261	145	1,116
Stations	684	96	588	684	76	608
General plant	31	8	23	31	5	26
	$ 8,349	$ 1,055	7,294	$ 8,357	$ 829	7,528
Less:						
Unamortized capital contributions:			5,519			5,674
			$ 1,775			$ 1,854

a. Capital contributions

Capital contributions have been received from federal, provincial and municipal agencies to assist in the funding of capital expenditures. In addition, customers are assessed a capital contribution for installation of natural gas service. Capital contributions are as follows:

	2005	2004
	(thousands)	
Opening balance	$ 5,674	$ 5,858
Contributions received (refunded)		
Governments of Canada and Manitoba	-	(29)
Customers	1	9
Contributions amortized	(156)	(164)
Balance, end of year	$ 5,519	$ 5,674

5. Property, Plant and Equipment (continued)

b. Amortization

	2005	2004
	(thousands)	
Amortization of property, plant and equipment	$ 226	$ 226
Amortization of capital contributions	(156)	(164)
	$ 70	$ 62

The composite rate of amortization on property, plant and equipment (excluding the effect of capital contributions amortization) was 2.7 per cent during 2005 (2004 - 2.7 per cent).

6. Share Capital

Authorized share capital consists of an unlimited number of common shares without nominal or par value. Issued share capital is as follows:

	Shares	2005	2004
		(thousands)	
Share capital, beginning of year	316,650	$ 3,167	$ 1
Issued during the year	-	-	3,166
Share capital, end of year	316,650	$ 3,167	$ 3,167

7. Net Change in Non-Cash Working Capital

	2005	2004
	(thousands)	
Accounts receivable	$ 53	$ 124
Intercompany accounts receivable	(71)	(126)
Accounts payable	(6)	15
Intercompany accounts payable	18	93
	$ (6)	$ 106

8. Financial Instruments

a. The carrying values of the corporation's financial instruments (accounts receivable, accounts payable, short term loan receivable from parent, intercompany accounts receivable, and intercompany accounts payable) approximate fair value due to their relatively short term nature.

8. Financial Instruments (continued)

b. Credit risk

The Corporation provides credit to its customers in the normal course of business. During 2005, the Corporation had one non-related customer from which it earned approximately 38 per cent of its revenue (2004 - 43 per cent). There were no credit losses in 2005.

9. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy and its subsidiaries were as follows:

	2005	2004
	(thousands)	
Natural gas commodity purchases	$ 592	$ 623
Transportation expense	517	285
Operating and maintenance expenses	88	-
Other Revenue	20	9
Sale of property, plant and equipment	-	35
Interest expense	-	23

These items have been recorded at their exchange rates. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

10. Rate Regulation

The impact of rate regulation on the application of Canadian generally accepted accounting principles as it relates to the regulated operations of Swan Valley Gas is as follows:

a. The business activities of Swan Valley Gas Corporation (SVGC) are regulated by the Manitoba Public Utilities Board (MPUB). Swan Valley Gas Corporation's delivery revenue was $613 thousand for 2005 (2004 - $606 thousand) and commodity revenue was $691 thousand for 2005 (2004 - $533 thousand).

11. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SASKATCHEWAN FIRST CALL CORPORATION

FINANCIAL STATEMENTS

December 31, 2005

Deloitte

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900 - 2103 11th Ave
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Auditors' Report

To the Shareholder of Saskatchewan First Call Corporation

We have audited the statement of financial position of Saskatchewan First Call Corporation as at December 31, 2005 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

SASKATCHEWAN FIRST CALL CORPORATION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash	$ 48	$ -
Accounts receivable	10	5
Intercompany accounts receivable	11	7
Prepaid expenses	13	13
	82	25
Property, plant and equipment (Note 3)	61	87
	$ 143	$ 112
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ -	$ 46
Accounts payable	13	13
Short term loan payable to parent (Note 4)	115	-
Intercompany accounts payable	-	48
	128	107
Shareholder's equity		
Share capital (Note 5)	1	1
Retained earnings	14	4
	15	5
	$ 143	$ 112

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKATCHEWAN FIRST CALL CORPORATION

Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2005	2004
Revenue		
Location services	$ 417	$ 425
Expenses		
Operating and maintenance	379	318
Amortization (Note 3)	26	22
Interest on bank indebtedness	2	4
	407	344
Net earnings	10	81
Retained earnings, beginning of year	4	(77)
Retained earnings, end of year	$ 14	$ 4

(See accompanying notes)

SASKATCHEWAN FIRST CALL CORPORATION

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings	$ 10	$ 81
Add item not requiring an outlay of cash		
Amortization	26	22
	36	103
Net change in non-cash working capital related to operations (Note 6)	(57)	27
Cash (used in) provided by operating activities	(21)	130
Investing Activities		
Additions to property, plant and equipment	-	(31)
Cash used in investing activities	-	(31)
Financing Activities		
Short term loan payable to parent (Note 4)	115	-
Decrease in bank indebtedness	(46)	(99)
Cash provided by (used in) financing activities	69	(99)
Increase in cash during the year	48	-
Cash position, beginning of year	-	-
Cash position, end of year	$ 48	$ -

(See accompanying notes)

Saskatchewan First Call Corporation
Notes to the Financial Statements
December 31, 2005

1. Status of the Corporation

Saskatchewan First Call Corporation (First Call) was created on April 5, 2002 under *The Saskatchewan Business Corporations Act*. First Call is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation has established a database for the location of certain underground utility facilities and oil, gas and other pipeline systems located in Saskatchewan. Primarily for safety reasons, First Call provides this service whereby landowners and other stakeholders may contact First Call to determine the location of underground facilities.

The Corporation recovers its costs of operation from subscriber companies participating in this notification service.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rate is as follows (in per cent):

Computer hardware and software	20

3 Property, Plant and Equipment

	2005			2004		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware and software	$ 129	$ 68	$ 61	$ 129	$ 42	$ 87

The composite rate of amortization was 20 per cent during 2005 (2004 - 20 per cent).

4. Short term loan payable to parent

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow up to $1,000 thousand on a revolving basis. The Corporation pays interest at a rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short term notes borrowed from the Province of Saskatchewan. Under this agreement, the Corporation may make repayments at any time without penalty, and SaskEnergy may terminate the loans without notice.

5. Share Capital

Authorized share capital consists of an unlimited number of Class A voting common shares without nominal or par value. One hundred (100) shares are issued and outstanding.

6. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations is as follows:

	2005	2004
	(thousands)	
Accounts receivable	$ (5)	$ (3)
Intercompany accounts receivable	(4)	-
Accounts payable	-	9
Intercompany accounts payable	(48)	21
	$ (57)	$ 27

7. Financial Instruments

The carrying value of financial instruments (accounts receivable, intercompany accounts receivable, short term loan payable to parent, accounts payable, and intercompany accounts payable) approximate fair value due to their relatively short term nature.

8. Related Party Transactions

a) Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Related party transactions with SaskEnergy and its subsidiaries were as follows:

	2005	2004
	(thousands)	
Notification services revenue	$ 278	$ 335
Operating and maintenance expenses	282	199

These items have been recorded at their exchange amounts. Amounts outstanding at year end with SaskEnergy and its subsidiaries have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

b) Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	2005	2004
	(thousands)	
Operating expenses	$ 62	$ 77
Revenue	103	60
Accounts receivable	3	2
Accounts payable	5	7

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

Deloitte

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Auditors' Report

To the Shareholder of SaskEnergy International Incorporated

We have audited the consolidated statement of financial position of SaskEnergy International Incorporated as at December 31, 2005 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash	$ 94	$ -
Accounts receivable	15	18
	109	18
Long-term investments (Note 3)	24,410	23,438
	$ 24,519	$ 23,456
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ -	$ 494
Short term loans payable to parent (Note 4)	1,190	-
Accounts payable	112	120
Intercompany accounts payable	226	43
	1,528	657
Shareholder's equity		
Share capital (Note 5)	29,384	29,384
Foreign currency translation adjustment (Note 3)	(1,627)	(1,925)
Deficit	(4,766)	(4,660)
	22,991	22,799
	$ 24,519	$ 23,456

Commitments (Note 10)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INTERNATIONAL INCORPORATED

Consolidated Statement of Loss and Deficit

Years ended December 31
(thousands of dollars)

	2005	2004
Revenue		
Share of equity investments' net earnings (Note 3)	$ 674	$ 511
Expenses		
Operating	758	582
Interest (Note 6)	22	5
	780	587
Loss	(106)	(76)
Deficit, beginning of year	(4,660)	(4,584)
Deficit, end of year	$ (4,766)	$ (4,660)

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2005	2004
Operating Activities		
Loss	**$ (106)**	$ (76)
Add (deduct) items not requiring an outlay of cash		
Share of equity investments' net earnings	**(674)**	(511)
	(780)	(587)
Net change in non-cash working capital related to operations (Note 7)	**178**	(5)
Cash used in operating activities	**(602)**	(592)
Financing Activities		
Increase (decrease) in bank indebtedness	**(494)**	494
Net increase in short term loans payable to parent	**1,190**	-
Cash provided by financing activities	**696**	494
Increase (decrease) in cash during the year	**94**	(98)
Cash position, beginning of year	**-**	98
Cash position, end of year	**$ 94**	$ -

(See accompanying notes)

SaskEnergy International Incorporated
Notes to the Consolidated Financial Statements
December 31, 2005

1. Status of the Corporation

SaskEnergy International Incorporated was incorporated under *The Canada Business Corporations Act* on February 17, 1981 and commenced international operations on March 1, 1996. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The Corporation is dependent upon the financial support of SaskEnergy.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, SaskEnergy Mexican Holdings Ltd, SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd.

b. Long-term investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

c. Foreign currency translation adjustment

The Corporation's foreign investments are self-sustaining and the financial statements are translated from their functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

2. Summary of Significant Accounting Policies (continued)

d. Employees' future benefits

The Corporation provides a defined contribution pension plan for all eligible employees. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations.*

Under the plan the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

The cost of future retirement allowance benefits earned by employees prior to 2005 is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

3. Long-Term Investments

Long-term investments are as follows:

	2005		2004	
	Amount (thousands)	Per cent Ownership	Amount (thousands)	Per cent Ownership
Equity investment				
Gas Sur S.A.	$ 13,784	30.0	$ 13,784	30.0
Equity earnings	864		485	
Currency translation adjustment	(118)		(758)	
	14,530		13,511	
Igasamex USA LTD.	10,880	40.1	10,880	40.1
Equity earnings	509		214	
Currency translation adjustment	(1,509)		(1,167)	
	9,880		9,927	
	$ 24,410		$ 23,438	

3. Long-Term Investments (continued)

a. Gas Sur S.A.

The Corporation's 30 per cent share of Gas Sur S.A.'s 2005 net earnings was $379 thousand (2004 - $381 thousand). The Corporation's share of the foreign currency translation adjustment for 2005 resulted in a $640 thousand increase in the balance of the investment in Gas Sur S.A. (2004 – $84 thousand reduction).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2004 - $5,100 thousand).

b. Igasamex USA Ltd.

The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2005 net earnings was $295 thousand (2004 - $130 thousand). The Corporation's share of the foreign currency translation adjustment for 2005 resulted in a $342 thousand reduction in the balance of the investment in Igasamex USA Ltd. (2004 - $757 thousand reduction).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $4,900 thousand (2004 - $5,200 thousand).

4. Short term loan payable to parent

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow up to $5,000 thousand on a revolving basis. The Corporation pays interest at a rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short term notes borrowed from the Province of Saskatchewan. Under this agreement, the Corporation may make repayments at any time without penalty, and SaskEnergy may terminate the loans without notice.

5. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There were 2,938,432 shares (2004 – 2,938,432) issued and outstanding.

6. Interest Expense

During the year, the Corporation made cash payments for interest on bank indebtedness to the parent of $20 thousand (2004 - $5 thousand).

7. Net Change in Non-Cash Working Capital

	2005	2004
	(thousands)	
Accounts receivable	$ 3	$ 3
Accounts payable	(8)	17
Intercompany accounts payable	183	(25)
	$ 178	$ (5)

8. Financial Instruments

The carrying values of the Corporation's financial instruments (accounts receivable, short term loans payable to parent, accounts payable, and intercompany accounts payable) approximate fair value due to their relatively short-term nature.

9. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy and its subsidiaries were as follows:

	2005	2004
	(thousands)	
Corporate expenses	$ 91	$ 98
Interest expense	$ 22	$ 5

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

10. Commitments

The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit issued to Igasamex USA Ltd. Bank One, N.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Bank One, N.A.

11. Employees' Future Benefits

a. Pension plans

All employees of the Corporation are members of the defined contribution pension plan. During the year, the Corporation contributed $21 thousand (2004 - $22 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The defined benefit retiring allowance plan for management employees is as follows:

	2005	2004
	(thousands)	
Accrued benefit liability	$ 61	$ 66
Benefits paid during the year	-	-
Net expense	(2)	14

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2005	2004
Discount rate	4.50 per cent	4.50 per cent
Inflation rate	2.50 per cent	3.00 per cent
Average remaining employee service life	7.4 years	8.4 years

SASKENERGY CHILEAN HOLDINGS I LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

Deloitte

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Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings I Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Chilean Holdings I Ltd. as at December 31, 2005 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

SASKENERGY CHILEAN HOLDINGS I LTD.

Consolidated Statement of Financial Position

As at December 31

(thousands of dollars)

	2005	2004
Assets		
Long-term investment (Note 3)	$ 14,388	$ 13,369
Liabilities and Shareholder's Equity		
Minority interest (Note 4)	$ 14	$ 13
Shareholder's equity		
Share capital (Note 5)	13,629	13,629
Foreign currency translation adjustment	(118)	(758)
Retained earnings	863	485
	14,374	13,356
	$ 14,388	$ 13,369

Commitment (Note 6)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY CHILEAN HOLDINGS I LTD.

Consolidated Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2005	2004
Share of equity investment net earnings (Note 3)	$ 379	$ 381
Minority interest (Note 4)	(1)	-
Net Earnings	378	381
Retained earnings, beginning of year	485	104
Retained earnings, end of year	$ 863	$ 485

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS I LTD.

Consolidated Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings	$ 378	$ 381
Deduct non-cash item		
Increase in minority interest	1	-
Share of equity investment net earnings	(379)	(381)
Cash provided by operating activities	-	-
Financing Activities		
Decrease in intercompany accounts payable	-	(2)
Cash used in financing activities	-	(2)
Decrease in cash during the year	-	(2)
Cash position, beginning of year	-	2
Cash position, end of year	$ -	$ -

(See accompanying notes)

SaskEnergy Chilean Holdings I Ltd.
Notes to the Consolidated Financial Statements
December 31, 2005

1. Status of the Corporation

SaskEnergy Chilean Holdings I Ltd. was created on August 27, 1996 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and a Chilean limited partnership, SaskEnergy Chilean Holdings Limitada (99.9 per cent ownership interest). The 0.1 per cent minority interest in SaskEnergy Chilean Holdings Limitada is held by SaskEnergy Chilean Holdings II Ltd. (an affiliate).

b. Long-term investment

The Corporation accounts for its investment in Gas Sur S.A. using the equity method.

c. Foreign currency translation adjustment

The Corporation's foreign investment is self-sustaining and the financial statements are translated from Chilean pesos into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

3. Long-Term Investment

As at December 31, the 30.0 per cent equity investment in Gas Sur S.A. was as follows:

	2005	2004
	(thousands)	
Equity investment	$ 13,642	$ 13,642
Equity earnings	864	485
Currency translation adjustment	(118)	(758)
	$ 14,388	$ 13,369

The Corporation's share of the foreign currency translation adjustment for 2005 resulted in a $640 thousand increase in the balance of the investment in Gas Sur S.A. (2004 - $84 thousand reduction). The Corporation's 30 per cent share of Gas Sur S.A.'s 2005 net earnings was $379 thousand (2004 - $381 thousand).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2004 - $5,100 thousand).

4. Minority Interest

The Corporation has a 99.9 per cent ownership interest in SaskEnergy Chilean Holdings Limitada. SaskEnergy Chilean Holdings II Ltd. (an affiliate) owns the remaining 0.1 per cent interest. The minority interest is SaskEnergy Chilean Holdings II Ltd.'s 0.1 per cent share interest in SaskEnergy Chilean Holdings Limitada.

As at December 31, the 0.1 per cent share minority interest was as follows:

	2005	2004
	(thousands)	
Minority interest, beginning of year	$ 13	$ 13
Minority interest share of equity earnings	1	-
Minority interest, end of year	$ 14	$ 13

5. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. At December 31, 2005, 1,362,867.9 shares (2004 – 1,362,867.9) are issued and outstanding.

6. Commitments

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand United States dollars.

SASKENERGY CHILEAN HOLDINGS II LTD.

FINANCIAL STATEMENT

December 31, 2005

Deloitte

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Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings II Ltd.

We have audited the statement of financial position of SaskEnergy Chilean Holdings II Ltd. as at December 31, 2005. This financial statement is the responsibility of the Corporation's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

SASKENERGY CHILEAN HOLDINGS II LTD.

Statement of Financial Position

As at December 31
(thousands of dollars)

	2005	2004
Assets		
Long-term investment (Note 3)	$ 14	$ 14
Shareholder's Equity		
Share capital (Note 4)	$ 14	$ 14

(See accompanying notes)

On behalf of the Board:

Director

Director

SaskEnergy Chilean Holdings II Ltd.
Notes to the Financial Statements
December 31, 2005

1. Status of the Corporation

SaskEnergy Chilean Holdings II Ltd. was created on June 4, 1997 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

During the year the Corporation had no revenue or expenses or cash flows, and accordingly a statement of earnings and statement of cash flows are not included.

2. Summary of Significant Accounting Policies

This financial statement has been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities. Actual results could differ from these estimates. The following accounting policy is considered to be significant:

Long-term investment

The Corporation accounts for its investment in SaskEnergy Chilean Holdings Limitada using the cost method (0.1 per cent ownership interest as at December 31, 2005 and December 31, 2004).

3. Long-Term Investment

The Corporation holds a 0.1 per cent interest in SaskEnergy Chilean Holdings Limitada with SaskEnergy Chilean Holdings I Ltd. (an affiliate) holding the remaining 99.9 per cent interest. The cost of the Corporation's investment in SaskEnergy Chilean Holdings Limitada is $13.6 thousand as at December 31, 2005 (2004 - $13.6 thousand).

4. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There were 1,365.2 shares (2004 – 1,365.2) are issued and outstanding.

SASKENERGY CHILEAN HOLDINGS LIMITADA

FINANCIAL STATEMENTS

December 31, 2005

Deloitte

Deloitte & Touche LLP
900 - 2103 11th Ave
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Tel: (306) 565-5200
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Auditors' Report

To the Partners of SaskEnergy Chilean Holdings Limitada

We have audited the statement of financial position of SaskEnergy Chilean Holdings Limitada as at December 31, 2005 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the limited partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the limited partnership as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

SASKENERGY CHILEAN HOLDINGS LIMITADA
Statement of Financial Position

As at December 31
(thousands of dollars)

	2005	2004
Assets		
Long-term investment (Note 3)	$ 14,388	$ 13,369
Partnership Equity		
Partnership contributions (Note 4)	13,642	13,642
Retained earnings	864	485
Foreign currency translation adjustment (Note 3)	(118)	(758)
	$ 14,388	$ 13,369

Commitment (Note 5)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY CHILEAN HOLDINGS LIMITADA

Statement of Earnings and Retained Earnings

Years ended December 31

(thousands of dollars)

	2005	2004
Share of equity investment net earnings (Note 3)	$ 379	$ 381
Net earnings	379	381
Retained earnings, beginning of year	485	104
Retained earnings, end of year	$ 864	$ 485

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS LIMITADA

Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings	$ 379	$ 381
Deduct non-cash item		
Share of equity investment net earnings	(379)	(381)
Cash provided by operating activities	-	-
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

SaskEnergy Chilean Holdings Limitada
Notes to the Financial Statements
December 31, 2005

1. Status of the Limited Partnership

SaskEnergy Chilean Holdings Limitada was established on December 16, 1998 as a Chilean limited partnership owned by two Canadian corporations – SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. The Canadian corporations are wholly owned subsidiaries of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation.

SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. have 99.9 per cent and 0.1 per cent respective ownership interests in the limited partnership. The net earnings of the limited partnership are attributed to the partners.

The affairs of the limited partnership are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Long-term investment

The limited partnership accounts for its investment in Gas Sur S.A. by the equity method.

b. Foreign currency translation adjustment

The limited partnership's foreign investment is self-sustaining and the financial statements are translated from Chilean pesos to Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected as a foreign currency translation adjustment in Partnership Equity.

3. Long-Term Investment

As at December 31, the 30.0 per cent equity investment (2004 – 30.0 per cent) in Gas Sur S.A. was as follows:

	2005	2004
	(thousands)	
Equity investment	$ 13,642	$ 13,642
Equity earnings	864	485
Currency translation adjustment	(118)	(758)
	$ 14,388	$ 13,369

The Corporation's share of the foreign currency translation adjustment for 2005 resulted in a $640 thousand increase in the balance of the investment in Gas Sur S.A. (2004 - $84 thousand reduction). The Corporation's 30 per cent share of Gas Sur S.A.'s 2005 net earnings was $379 thousand (2004 - $381 thousand).

The cost of the investment exceeded the limited partnership's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2004 - $5,100 thousand).

4. Partnership Equity

	2005			
	SaskEnergy Chilean Holdings I Ltd. 99.9 per cent	SaskEnergy Chilean Holdings II Ltd. 0.1 per cent	Total	2004
		(thousands)		
Partnership contributions	$ 13,629	$ 13	$ 13,642	$ 13,642
Net earnings	863	1	864	485
Foreign currency translation adjustment	(118)	-	(118)	(758)
Partnership equity	$ 14,374	$ 14	$ 14,388	$ 13,369

5. Commitment

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand United States dollars.

SASKENERGY MEXICAN HOLDINGS LTD.

FINANCIAL STATEMENTS

December 31, 2005

Deloitte

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Auditors' Report

To the Shareholder of SaskEnergy Mexican Holdings Ltd.

We have audited the statement of financial position of SaskEnergy Mexican Holdings Ltd. as at December 31, 2005 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

A member firm of
Deloitte Touche Tohmatsu

SASKENERGY MEXICAN HOLDINGS LTD.
Statement of Financial Position

As at December 31
(thousands of dollars)

	2005	2004
Assets		
Long-term investment (Note 3)	$ 9,741	$ 9,788
Shareholder's Equity		
Share capital (Note 4)	$ 10,741	$ 10,741
Foreign currency translation adjustment (Note 3)	(1,509)	(1,167)
Retained earnings	509	214
	$ 9,741	$ 9,788

Commitments (Note 5)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY MEXICAN HOLDINGS LTD.

Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2005	2004
Share of equity investment net earnings (Note 3)	$ 295	$ 130
Net earnings	295	130
Retained earnings, beginning of year	214	84
Retained earnings, end of year	$ 509	$ 214

(See accompanying notes)

SASKENERGY MEXICAN HOLDINGS LTD.

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings	$ 295	$ 130
Add item not requiring an outlay of cash		
Share of equity investment net earnings	(295)	(130)
Cash provided by operating activities	-	-
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

SaskEnergy Mexican Holdings Ltd.
Notes to the Financial Statements
December 31, 2005

1. Status of the Corporation

SaskEnergy Mexican Holdings Ltd. was incorporated on November 15, 2001 under *The Canada Business Corporations Act* and is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Long-term investment

The Corporation accounts for its investment in Igasamex USA Ltd. using the equity method.

b. Foreign currency translation adjustment

The Corporation's foreign investment is self-sustaining and the financial statements are translated from United States dollars into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the United States dollar and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

3. Long-Term Investment

As at December 31, the equity investment in Igasamex USA Ltd. was as follows:

	2005		2004	
	Amount (thousands)	Per cent Ownership	Amount (thousands)	Per cent Ownership
Equity investment	$ 10,741	40.1	$ 10,741	40.1
Equity earnings	509		214	
Currency translation adjustment	(1,509)		(1,167)	
	$ 9,741		$ 9,788	

The Corporation's share of the foreign currency translation adjustment for 2005 resulted in a $342 thousand reduction in the balance of the investment in Igasamex USA Ltd. (2004 - $757 thousand reduction). The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2005 net earnings was $295 thousand (2004 - $130 thousand).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $4,900 thousand (2004 - $5,200 thousand).

The equity interest is held through general partnership and limited partnership units.

4. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There were 1,074,100.9 shares (2004 – 1,074,100.9) are issued and outstanding.

5. Commitments

SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit is used as collateral for the Corporation's share of a line of credit issued to Igasamex USA Ltd. Bank One, N.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Bank One, N.A.

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

Deloitte

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Auditors' Report

To the Shareholder of SaskEnergy Nova Scotia Holdings Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Nova Scotia Holdings Ltd. as at December 31, 2005 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

SASKENERGY NOVA SCOTIA HOLDINGS LTD.
Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash	$ 646	$ 403
Accounts receivable	818	355
Inventories of supplies	95	220
Prepaid expenses	53	30
Gas cost variance account	15	3
	1,627	1,011
Property, plant and equipment (Note 4)	16,849	9,048
Revenue deficiency account (Note 5)	2,709	1,059
Deferred charges (Note 6)	151	203
	$ 21,336	$ 11,321
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	$ 1,631	$ 865
Intercompany accounts payable	118	63
	1,749	928
Long-term debt (Note 7)	11,747	5,580
	13,496	6,508
Shareholder's equity		
Share capital (Note 8)	6,152	4,089
Retained earnings	1,688	724
	7,840	4,813
	$ 21,336	$ 11,321

Commitments (Note 9)

On behalf of the Board:

Director

Director

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

Consolidated Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2005	2004
Revenue		
Revenue deficiency accrual (Note 5)	$ 1,650	$ 937
Allowance for funds used during construction (Note 4)	362	132
Distribution revenue	233	35
Other	5	78
	2,250	1,182
Expenses		
Operating and maintenance	584	251
Interest (Note 10)	350	191
Amortization of property, plant and equipment	243	85
Amortization of deferred charges	52	50
Corporation capital tax	57	31
	1,286	608
Earnings from operations before the following	964	574
Commodity sales revenue	868	61
Cost of gas sold	868	61
Commodity sales margin	-	-
Net earnings	964	574
Retained earnings, beginning of year	724	150
Retained earnings, end of year	$ 1,688	$ 724

(See accompanying notes)

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2005	2004
Operating Activities		
Net earnings	$ 964	$ 574
Add (deduct) items not requiring an outlay of cash		
Allowance for funds used during construction	(362)	(132)
Amortization of property, plant and equipment	243	85
Amortization of deferred charges	52	50
Increase in revenue deficiency account	(1,650)	(937)
	(753)	(360)
Net change in non-cash working capital (Note 12)	448	(107)
Cash used in operating activities	(305)	(467)
Investing Activities		
Additions to property, plant and equipment	(7,682)	(4,436)
Increase in deferred charges	-	(209)
Cash used in investing activities	(7,682)	(4,645)
Financing Activities		
Proceeds from long-term debt	6,167	3,100
Proceeds from share capital issue	2,063	2,060
Cash provided by financing activities	8,230	5,160
Increase in cash during the year	243	48
Cash position, beginning of year	403	355
Cash position, end of year	$ 646	$ 403

(See accompanying notes)

SaskEnergy Nova Scotia Holdings Ltd.
Notes to the Consolidated Financial Statements
December 31, 2005

1. Status of the Corporation

SaskEnergy Nova Scotia Holdings Ltd. was created on September 13, 2002 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its 50.1 per cent proportionate share of the accounts of Heritage Gas Limited (Heritage Gas), a joint venture.

b. Regulation

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). Heritage Gas's accounting policies conform to Canadian generally accepted accounting principles for rate regulated utilities and reflect the policies established by the NSUARB. The impact of rate regulation on the application of Canadian generally accepted accounting principals as described in notes 4 and 5 are as follows:

i. Revenue Deficiency Account

Heritage Gas has approval from the NSUARB to use a Revenue Deficiency Account (RDA). The RDA changes based on the difference between the actual revenue billed and the revenue required to earn the rates of return approved by the NSUARB. During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. The recovery of any residual balance in the RDA at December 31, 2008 is subject to approval by the NSUARB.

2. Summary of Significant Accounting Policies (continued)

ii. Allowance for funds used during construction

Heritage Gas capitalizes an imputed carrying cost on assets under construction at a rate accepted by the NSUARB. This amount capitalized is disclosed on the income statement as allowance for funds used during construction (AFUDC). AFUDC is the amount that a rate-regulated enterprise is allowed to earn to recover its cost of financing assets under construction. It is calculated at Heritage Gas' mid-month cost of construction work in process times the Heritage Gas' cost of capital. AFUDC is included in the cost of the related assets and recovered in future periods through depreciation charges.

iii. Capitalized expenses

The NSUARB has approved the capitalization of operating and maintenance expenses. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

	2005	2004
	Percentage	
Executive, operations, human resources, finance and administration, and overhead	50	75
Marketing, engineering, construction, regulatory and public affairs	100	100

iv. Gas cost variance account

The gas cost variance account (GCVA) is the difference between the cost to purchase natural gas and the current rate charged to customers and the balance in the GCVA is recovered from or refunded to customers through adjustments to future rates.

2. Summary of Significant Accounting Policies (continued)

v. Property, plant and equipment

The AFUDC and capitalized expenses are amortized at rates authorized by the NSUARB.

Amortization of property, plant and equipment is calculated on a straight-line basis by applying a fixed rate to the cost at the previous year end balance as approved by the NSUARB. Approved amortization rates are as follows:

Distribution	
- Franchise acquisition	4.00%
- Mains and services	2.10% - 2.70%
- Regulating and metering stations	2.56% - 4.18%
- Meters	3.51%
Computer systems	20.00% - 33.00%
Vehicles and equipment	5.00% - 16.38%
Tools and furniture	5.00%
Leaseholds	Over the term of the lease

vi. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general materials for construction and maintenance and is recorded at average cost.

d. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus capitalized expenses and an AFUDC.

Certain additions to property, plant and equipment are made with the assistance of contributions in aid of construction. Contributions in aid of construction are offset against the corresponding asset balances and amortized at the same rate as the corresponding asset.

The Corporation has not recorded an asset retirement obligation due to the indeterminate life of its distribution and supply network and corresponding indeterminable timing and scope of asset retirements.

2. Summary of Significant Accounting Policies (continued)

e. Revenue recognition

Revenues include revenue from the distribution of natural gas and recovery of the Corporation's cost of gas paid to suppliers, and the associated gas supply costs. The Corporation recognizes revenues as earned when gas has been delivered or services have been performed. Gas distribution revenues are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the reporting period. The Corporation's operations are subject to regulation and, accordingly, revenue is recognized in a manner that is consistent with the underlying rate-setting mechanism as mandated by the NSUARB. The Corporation's delivery charges are designed to recover the Corporation's total cost of delivery and an approved return on equity.

3. Revolving Demand Facility

The Corporation, through its interest in Heritage Gas, has a $500 thousand (2004 – $500 thousand) revolving demand facility with a Canadian chartered bank, bearing interest at bank prime plus 1 per cent, which is secured by a General Security Agreement over all personal property of Heritage Gas.

4. Property, Plant and Equipment

	2005			2004		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Franchise acquisition costs	$ 1,668	$ 134	$ 1,534	$ 1,668	$ 67	$ 1,601
Mains and services	14,456	93	14,363	6,651	-	6,651
Regulating and metering stations	370	14	356	352	-	352
Meters	178	3	175	145	-	145
Computer systems	181	51	130	135	5	130
Vehicles and equipment	101	17	84	56	8	48
Tools, furniture and leaseholds	225	18	207	126	5	121
	$ 17,179	$ 330	$ 16,849	$ 9,133	$ 85	$ 9,048

Franchise acquisition costs represent payments made for costs incurred to acquire the franchise.

In 2005 the Corporation recorded $362 thousand (2004 - $132 thousand) in AFUDC. The cumulative AFUDC recorded as at December 31, 2005 was $582 thousand (2004 - $220 thousand).

4. Property, Plant and Equipment (continued)

The effect of capitalizing operating and maintenance expenses was to decrease expenses and increase property, plant and equipment in 2005 by $1,490 thousand (2004 - $1,957 thousand). The cumulative operating expenses capitalized as at December 31, 2005 were $4,354 thousand (2004 - $2,864 thousand).

In 2004, Heritage Gas constructed certain assets related to a large customer within its franchise area. At year end, these assets have not yet been put into use by the Corporation and have been recorded as assets under construction within property, plant and equipment. Management is confident that these assets will be operational in the foreseeable future and estimated its recoverability using estimated cash flows. Significant changes in the assumptions with respect to the future business plans could impact the estimated cash flows which may impair these assets and may be material to the statements.

Included in mains and services is work in progress in the amount of $2,899 thousand for the year ended December 31, 2005 (2004 - $2,521 thousand). Work in progress is not depreciated until the year after the plant is brought into active service, as required by the NSUARB.

5. Revenue Deficiency Account

	2005	2004
	(thousands)	
Beginning of year	**$ 1,059**	$ 122
Revenue deficiency accrued during the year	**1,650**	937
End of year	**$ 2,709**	$ 1,059

The effect of accruing this revenue was to increase revenue and increase the revenue deficiency account.

6. Deferred Charges

Deferred charges include third party costs related to regulatory proceedings. These costs are being amortized on a straight-line basis over a five-year period which commenced in 2004, as approved by the NSUARB.

	2005	2004
	(thousands)	
Deferred charges	**$ 203**	$ 253
Accumulated amortization	**(52)**	(50)
End of year	**$ 151**	$ 203

7. Long-Term Debt

	2005		2004	
	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)
Note payable to parent	$ 8,941	5.25	$ 5,580	5.25
Province of Nova Scotia	2,806	-	-	-
	$ 11,747		$ 5,580	

Heritage Gas shareholders' loans are unsecured and carry an NSUARB approved interest rate of 8.75 per cent with interest paid quarterly. All loans are to be repaid in full on December 31, 2009. During the year, interest recorded on shareholders' loans was $1,213 thousand (2004 - $654 thousand).

During the year, the Corporation received $3,808 thousand from the Province of Nova Scotia. If certain capital investment targets are achieved by December 31, 2006, up to $1,002 thousand of the loan will be forgiven. Management of the Corporation is anticipating that the capital investment targets will be achieved and consequently has recorded the $1,002 thousand as a reduction of property, plant and equipment. If the capital investment targets are not achieved by December 31, 2006, the Corporation is required to repay a portion of the loan by April 30, 2007.

The Province of Nova Scotia loan is non-interest bearing. If certain prescribed revenue targets are achieved, interest will accumulate on a prospective basis at a rate of 6 per cent. The Province of Nova Scotia loan is guaranteed until December 31, 2006. Effective January 1, 2007, the loan will be secured by a first fixed charge over the Heritage Gas' assets. On or before July 1, 2011, Heritage Gas must elect to either repay the loan in one lump sum payment on July 31, 2014, or in five equal annual instalments, beginning on July 31, 2012. Heritage Gas may also elect to fully repay the loan at any time with no penalty.

8. Share Capital

Authorized share capital consists of an unlimited number of class A voting common shares without nominal or par value.

	2005		2004	
	Shares	Amount (thousands)	Shares	Amount (thousands)
Share capital, beginning of year	4,089,163	$ 4,089	2,029,051	$ 2,029
Issued during the year	2,062,420	2,063	2,060,112	2,060
Share capital, end of year	6,151,583	$ 6,152	4,089,163	$ 4,089

9. Commitments

Future minimum lease payments under operating leases for office space and office equipment are estimated as follows:

	(thousands)
2006	$ 112
2007	18
2008	6

10. Interest Expense

Interest expense was as follows:

	2005	2004
	(thousands)	
Interest on long-term debt	$ 365	$ 197
Interest income on cash balance	(15)	(6)
	$ 350	$ 191

There was $347 thousand (2004 – $222 thousand) in cash interest payments during the year.

11. Financial Instruments

The fair value of the Corporation's financial instruments are listed below:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	$ 8,941	$ 9,545	$ 5,580	$ 5,900

The carrying values of other financial instruments (accounts receivable, accounts payable and intercompany accounts payable) approximate fair value due to their relatively short term nature.

12. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	2005	2004
	(thousands)	
Accounts payable	$ 766	$ (3)
Inventories of supplies	125	11
Intercompany accounts payable	55	(65)
Gas cost variance account	(12)	(3)
Prepaid expenses	(23)	(3)
Accounts receivable	(463)	(44)
	$ 448	$ (107)

13. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy, and amounts outstanding at year end, are as follows:

	2005	2004
	(thousands)	
Interest expense on note payable to parent	$ 365	$ 197
Intercompany accounts payable	118	63
Operating and maintenance expenses	102	168
Accounts payable	16	30

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts payable on the statement of financial position.

14. Joint Venture Interest

The following amounts have been included in these consolidated financial statements with respect to the corporations 50.1 per cent interest in the Heritage Gas joint venture:

a. Consolidated statement of financial position

	2005	2004
	(thousands)	
Current assets	$ 1,392	$ 831
Property, plant and equipment	16,849	9,048
Regulatory receivable	2,709	1,059
Deferred charges	151	203
Current liabilities	(1,689)	(902)
Net investment	$ 19,412	$ 10,239

14. Joint Venture Interest (continued)

b. Consolidated statement of earnings

	2005	2004
	(thousands)	
Revenue	$ 2,250	$ 1,182
Expenses	(901)	(407)
Net earnings	$ 1,349	$ 775

c. Consolidated statement of cash flows

	2005	2004
	(thousands)	
Cash used in operating activities	$ (358)	$ (568)
Cash used in investing activities	(7,682)	(4,645)
Decrease in cash	$ (8,040)	$ (5,213)

15. Income taxes

As at December 31, 2005, Heritage Gas has approximately $9,363 thousand in losses available to reduce future income taxes. These losses can be claimed no later than:

	(thousands)
2010	$ 1,218
2014	4,172
2015	3,973

As of December 31, 2005, the unrecorded future income tax assets of Heritage Gas are approximately $1,016 thousand (2004 - $357 thousand).

16. Subsequent event

Additional common shares of $321 thousand and $581 thousand in loans were advanced to Heritage Gas by SaskEnergy Nova Scotia Holdings Ltd on January 16, 2006.

Additional common shares of $321 thousand and $581 thousand in loans were advanced to SaskEnergy Nova Scotia Holdings Ltd by SaskEnergy Incorporated – Holdings Division on January 16, 2006.

Heritage Gas Limited

Financial Statements
December 31, 2005

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
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January 20, 2006

Auditors' Report

To the Shareholders of
Heritage Gas Limited

We have audited the balance sheet of **Heritage Gas Limited** (the Company) as at December 31, 2005 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The prior year's figures were reported on by another auditing firm.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Heritage Gas Limited

Balance Sheet

As at December 31, 2005

	2005 $	2004 $
Assets		
Current assets		
Cash	825,008	445,659
Accounts receivable	1,630,608	707,982
Inventory of supplies	188,985	439,726
Prepaid expenses	84,840	60,114
Gas cost variance account	29,191	5,523
	2,758,632	1,659,004
Property, plant and equipment (note 4)	33,632,924	18,060,738
Revenue deficiency account (note 5)	5,405,446	2,112,796
Deferred charges (note 6)	301,830	404,258
	42,098,832	22,236,796
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,732,666	1,799,818
Long-term debt (note 7)	23,446,404	11,138,000
	27,179,070	12,937,818
Shareholders' Equity		
Capital stock (note 8)	12,278,596	8,162,000
Retained earnings	2,641,166	1,136,978
	14,919,762	9,298,978
	42,098,832	22,236,796

Commitments (note 9)

See accompanying notes to the financial statements

Approved by the Board of Directors

Director

Director

Heritage Gas Limited

Statement of Income and Retained Earnings

For the year ended December 31, 2005

	2005 $	2004 $
Revenue		
Natural gas sales and distribution revenue	2,197,711	190,667
Cost of natural gas sales	1,732,379	121,360
Gas distribution margin	465,332	69,307
Allowance for funds used during construction (note 4)	723,000	263,919
Revenue deficiency accrual (note 5)	3,292,650	1,869,082
Municipal tax	11,323	921
Other	8,905	158,258
	4,501,210	2,361,487
Expenses		
Operating and maintenance (note 4)	1,096,307	493,937
Amortization of deferred charges	100,800	101,064
Amortization of property, plant and equipment	486,046	169,693
Corporate capital tax	113,625	60,000
Interest expense (note 10)	1,188,921	643,374
Municipal tax expense	11,323	921
	2,997,022	1,468,989
Net income for the year	1,504,188	892,498
Retained earnings – beginning of year	1,136,978	244,480
Retained earnings – end of year	2,641,166	1,136,978

See accompanying notes to the financial statements

Heritage Gas Limited

Statement of Cash Flows

For the year ended December 31, 2005

	2005 $	2004 $
Cash provided by (used in)		
Operating activities		
Net income for the year	1,504,188	892,498
Add (deduct) items not affecting cash		
Allowance for funds used during construction	(723,000)	(263,919)
Amortization of deferred charges	100,800	101,064
Amortization of property, plant and equipment	486,046	169,693
Revenue deficiency accrual	(3,292,650)	(1,869,082)
	(1,924,616)	(969,746)
Net change in non-cash working capital balances (note 11)	1,212,569	(165,154)
	(712,047)	(1,134,900)
Financing activities		
Proceeds provided by shareholders' loans	6,708,404	6,188,000
Proceeds provided by issuance of share capital	4,116,596	4,112,000
Proceeds provided by third party loans	5,600,000	–
Contributions in aid of construction	2,000,000	–
	18,425,000	10,300,000
Investing activities		
Additions to property, plant and equipment	(17,335,232)	(8,853,223)
Decrease (increase) in deferred charges	1,628	(417,818)
	(17,333,604)	(9,271,041)
Net change in cash during the year	379,349	(105,941)
Cash – beginning of year	445,659	551,600
Cash – end of year	825,008	445,659
Additional disclosures with respect to the statement of cash flows:		
Interest paid	855,146	654,416

See accompanying notes to the financial statements

Heritage Gas Limited

Notes to Financial Statements

For the year ended December 31, 2005

1 Status of the Company

Heritage Gas Limited (the Company) was incorporated on August 13, 2002 under The Canada Business Corporations Act.

The shareholders and their respective ownership interests are as follows:

SaskEnergy Nova Scotia Holdings Ltd.	50.1%
Silgascorp Inc.	25.0%
AltaGas Utility Holdings (Nova Scotia) Inc.	24.9%

On August 16, 2002, the Company applied for a full regulation class franchise for a specific area in Nova Scotia pursuant to The Gas Distribution Act (Nova Scotia). The Nova Scotia Utility and Review Board (NSUARB) awarded the Company the franchise to distribute natural gas to all or part of six counties in the Province of Nova Scotia on February 7, 2003 which the Company accepted on June 3, 2003. The franchise term is 25 years. The NSUARB approved a debt to equity ratio of 55:45; a cost of debt of 8.75%; and a rate of return on equity of 13.00%.

2 Significant accounting policies

a) Regulation

The Company is engaged in the distribution of natural gas in Nova Scotia and is regulated by the NSUARB. The regulations cover such matters as tariffs, rates, construction, operations, financing, and accounting. The Company's accounting policies conform to generally accepted accounting principles in the gas distribution industry in Canada and reflect the policies prescribed by the NSUARB. Rate regulation creates differences between the manner in which the Company accounts for transactions or events and how they would be accounted for if the Company was not subject to rate regulation. Differences in accounting treatment arise from adoption of the following rate regulated accounting practices:

- the use of a revenue deficiency account (note 2(f));
- recognizing an allowance for funds used during construction (note 2(j));
- using a gas cost variance account in the recovery of gas costs from customers (note 2(g));
- capitalizing certain operating and maintenance expenses (note 2(h));
- using the taxes payable method and not accounting for future income taxes (note 2(i)); and
- amortizing additions of property, plant and equipment (note 2(c)) differently from enterprises not subject to rate regulation.

2 Significant accounting policies (continued)

b) Inventory of supplies

Inventory of supplies consists primarily of pipe, meters and general materials for construction and maintenance and is recorded at average cost.

c) Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all costs of materials, labour and services to construct or purchase plus capitalized expenses (note 2 (h)) and an allowance for funds used during construction (AFUDC) (note 2 (j)).

The capitalized expenses and AFUDC are capitalized and amortized at rates authorized by the NSUARB.

Amortization of property, plant and equipment is calculated on a straight-line basis by applying a fixed rate to the cost at the previous year end, as approved by the NSUARB.

Franchise acquisition	4.00%
Mains and services	2.10% - 2.70%
Regulating and metering stations	2.56% - 4.18%
Meters	3.51%
Computer systems	20.00% - 33.00%
Vehicles and equipment	5.00% - 16.38%
Tools and furniture	5.00%
Leaseholds	Over the term of the lease

Certain additions to property, plant and equipment are made with the assistance of contributions in aid of construction. Contributions in aid of construction are offset against the corresponding asset balances and amortized at the same rate as the corresponding asset.

The Company has not recorded an asset retirement obligation due to the indeterminate life of its distribution and supply network and corresponding indeterminable timing and scope of asset retirements.

d) Revenue recognition

Revenues include revenue from the distribution of natural gas and recovery of the Company's cost of gas paid to suppliers, and the associated gas supply costs. The Company recognizes revenues as earned when gas has been delivered or services have been performed. Gas distribution revenues are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the reporting period. The Company's operations are subject to regulation and, accordingly, revenue is recognized in a manner that is consistent with the underlying rate-setting mechanism as mandated by the NSUARB. The Company's delivery charges are designed to recover the Company's total cost of delivery and an approved return on equity.

2 **Significant accounting policies** (continued)

e) Cost of natural gas sales

Cost of natural gas sales is the cost of gas purchased for resale to customers. Charges for gas delivered are based on the forecast cost of natural gas and variances between the forecast cost and the actual cost of natural gas are deferred for refund to, or collection from, customers in subsequent periods.

f) Revenue deficiency account

The Company has approval from the NSUARB to use a Revenue Deficiency Account (RDA). The RDA changes based on the difference between the actual revenue billed and the revenue required to earn the rates of return approved by the NSUARB. In the Company's customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. The recovery of any residual balance in the RDA at December 31, 2008 is subject to approval by the NSUARB.

g) Gas cost variance account

The gas cost variance account (GCVA) is the difference between the cost to purchase natural gas and the current rate charged to customers. GCVA balance is recovered from or refunded to customers through adjustments to future charges.

h) Capitalized expenses

The NSUARB has approved the capitalization of certain operating and maintenance expenses. If the Company was not subject to rate regulation, certain of these amounts would not be capitalized. The following table identifies the rates at which operating and maintenance expenses were capitalized:

	2005	2004
Executive, operations, human resources, finance and administration, and overhead	50%	75%
Marketing, engineering, construction, and regulatory and public affairs	100%	100%

i) Income taxes

Income taxes are provided by the Company using the taxes payable method approved by the NSUARB. No future income taxes are recognized in the financial statements. The Company is a rate-regulated enterprise and all future income taxes are expected to be recovered in the rates charged to customers in the future.

2 Significant accounting policies (continued)

j) Allowance for funds used during construction

The Company capitalizes an imputed carrying cost on assets under construction at a rate accepted by the NSUARB. This amount capitalized is disclosed on the income statement as allowance for funds used during construction (AFUDC). AFUDC is the amount that a rate-regulated enterprise is allowed to earn to recover its cost of financing assets under construction. It is calculated at the Company's mid-month cost of construction work in process times the Company's cost of capital. AFUDC is included in the cost of the related assets and recovered in future periods through depreciation charges.

k) Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results may differ from those estimates.

3 Revolving demand facility

The Company has a $1,000,000 revolving demand facility with a Canadian chartered bank, bearing interest at bank prime plus 1%, which is secured by a General Security Agreement over all personal property of the Company.

4 Property, plant and equipment

	2005			2004
	Cost $	Accumulated amortization $	Net book value $	Net book value $
Franchise acquisition	3,328,676	266,841	3,061,835	3,194,982
Mains and services	28,853,290	184,525	28,668,765	13,274,786
Regulating and metering stations	737,999	27,740	710,259	702,387
Meters	356,007	5,587	350,420	287,593
Computer systems	361,314	102,350	258,964	263,739
Vehicles and equipment	201,285	34,198	167,087	96,304
Tools, furniture and leaseholds	450,092	34,498	415,594	240,947
	34,288,663	655,739	33,632,924	18,060,738

4 Property, plant and equipment (continued)

In 2004, the Company constructed assets under a contract to service a large customer. At year end, the customer has not connected for service and the assets have not been put into active service. Management is confident that these assets, which have been recorded as property, plant and equipment, will be operational in the foreseeable future. Based on projected cash flows management does not consider the value of the assets to be impaired. Significant changes in results from those assumed in current business plans could impact the estimated cash flows. Should the economic values of these assets be determined to be impaired, a reduction in the book value of these assets could be material to the statements.

The Company has recorded $723,000 (2004 - $263,919) in AFUDC.

The Company has capitalized $2,974,870 (2004 - $3,906,003) of operating and maintenance expenses during the year. The effect of capitalizing operating expenses was to decrease expenses and increase property, plant and equipment.

Included in mains and services is work in progress in the amount of $5,786,386 for the year ended December 31, 2005 (2004 - $5,032,347). Depreciation of work in progress begins the year after the plant is brought into active service, as prescribed by the NSUARB.

5 Revenue deficiency account

	2005 $	2004 $
Beginning of year	2,112,796	243,714
Revenue deficiency accrued during the year	3,292,650	1,869,082
End of year	5,405,446	2,112,796

The effect of accruing this revenue was to increase revenue and increase the revenue deficiency account.

6 Deferred charges

Deferred charges include third party costs incurred by the Company related to regulatory proceedings. These costs are being amortized on a straight-line basis over a five-year period, commencir g in 2004, as approved by the NSUARB.

	2005 $	2004 $
Deferred charges	503,694	505,322
Accumulated amortization	(201,864)	(101,064)
	301,830	404,258

7 Long-term debt

	2005 $	2004 $
Shareholders' loans		
SaskEnergy Nova Scotia Holdings Ltd.	8,941,045	5,580,138
Silgascorp Inc.	4,461,604	2,784,500
AltaGas Utility Holdings (Nova Scotia) Inc.	4,443,755	2,773,362
	17,846,404	11,138,000
Province of Nova Scotia	5,600,000	–
	23,446,404	11,138,000

Shareholders' loans are unsecured and carry an NSUARB approved interest rate of 8.75% with interest paid quarterly. All loans are to be repaid in full on December 31, 2009. During the year, interest recorded on shareholders' loans was $1,213,346 (2004 - $654,416).

During the year, the Company received $7.6 million from the Province of Nova Scotia. If certain capital investment targets are achieved by December 31, 2006, up to $2.0 million of the loan will be forgiven. Management of the Company is anticipating that the capital investment targets will be achieved and consequently has recorded the $2.0 million as a reduction of property, plant and equipment. If the capital investment targets are not achieved by December 31, 2006, the Company is required to repay a portion of the loan by April 30, 2007.

The Province of Nova Scotia loan is non-interest bearing. If certain prescribed revenue targets are achieved, interest will accumulate on a prospective basis at a rate of 6%. The Province of Nova Scotia loan is guaranteed until December 31, 2006 on a proportionate basis of ownership by the shareholder companies. Effective January 1, 2007, the loan will be secured by a first fixed charge over the Company's assets. On or before July 1, 2011, the Company must elect to either repay the loan in one lump sum payment on July 31, 2014, or in five equal annual instalments, beginning on July 31, 2012. The Company may also elect to fully repay the loan at any time with no penalty.

8 Capital stock

Authorized

Unlimited number of common shares without nominal or par value

	Shares	$
Issued and outstanding		
December 31, 2003	4,050,000	4,050,000
Issued during the year for cash	4,112,000	4,112,000
December 31, 2004	8,162,000	8,162,000
Issued during the year for cash	4,116,596	4,116,596
December 31, 2005	12,278,596	12,278,596

9 Commitments

Future minimum lease payments for the next three years under operating leases for office space and office equipment are estimated as follows:

	$
2006	223,201
2007	36,532
2008	11,771

10 Interest expense

	2005 $	2004 $
Interest expense on shareholders' loans	1,213,346	654,416
Interest income net of bank charges	(24,425)	(11,042)
	1,188,921	643,374

11 Net change in non-cash working capital

	2005 $	2004 $
Accounts receivable	(922,626)	(87,397)
Inventory of supplies	250,741	20,488
Prepaid expenses	(24,726)	(5,569)
Gas cost variance account	(23,668)	(5,523)
Accounts payable and accrued liabilities	1,932,848	(87,153)
	1,212,569	(165,154)

12 Financial instruments

The carrying values of the Company's financial instruments (accounts receivables, accounts payable and accrued liabilities and long-term debt) approximate fair value.

13 Related party transactions

Related party transactions with the Company's shareholders are recorded at their exchange amount which is considered to be at fair value. Related party transactions and balances were as follows:

	2005 $	2004 $
Operating and maintenance expenses	203,488	335,879
Interest expense	1,213,346	654,416
Accounts payable	189,728	140,235
Interest payable	358,200	-

14 Income taxes

As at December 31, 2005, the Company has approximately $9,363,000 in income tax loss carryforwards available to reduce future income taxes. These loss carryforwards expire as follows:

	$
2010	1,218,000
2014	4,172,000
2015	3,973,000

As of December 31, 2005, the unrecorded future income tax assets of the Company are approximately $1,016,000 (2004 - $357,000).

15 Subsequent event

On January 16, 2006, the shareholders advanced an additional $640,050 in common shares and $1,159,950 in loans.

16 Comparative figures

Certain comparative figures have been reclassified to conform to the current financial statement presentation.